

**NOMINATIONS OF ROBERT F. RIDER,
S. DAVID FINEMAN, AND G. EDWARD DeSEVE**

Y 4. G 74/9: S. HRG. 104-394

Nominations of Robert F. Rider, S....

HEARING

BEFORE THE

**COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS**

FIRST SESSION

ON

NOMINATIONS OF ROBERT F. RIDER AND S. DAVID FINEMAN, TO BE
GOVERNORS, U.S. POSTAL SERVICE AND G. EDWARD DeSEVE TO BE
A CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET

MAY 23, 1995

Printed for the use of the Committee on Governmental Affairs



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NOMINATIONS HEARING

TUESDAY, MAY 23, 1995

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 11:08 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Committee, presiding.

Present: Senators Roth and Dorgan.

OPENING STATEMENT OF CHAIRMAN ROTH

Chairman ROTH. The Committee will be in order.

This morning we are holding hearings to consider two nominations to the Postal Board of Governors—Robert Rider of Delaware and David Fineman of Pennsylvania—as well as the nomination of Ed DeSeve to serve as controller at the Office of Management and Budget. We will first take up the Postal nominations.

The Postal Board of Governors, of course, serves as the Board of Directors of the Postal Service, directing expenditures, reviewing its business practices, conducting long-range planning, and setting policy on all postal matters.

The post office touches daily on the lives of all Americans. And whether it is personal greetings, business correspondence, or a Social Security check, processing and delivering the mail to millions of Americans is a vital function, and the public demands reliable service at reasonable rates. Therefore, it is essential that the decisions affecting this vital public service are made by individuals who are particularly dedicated and able.

All nominees have filed responses to a biographical and financial questionnaire and answered pre-hearing questions submitted by the Committee. Without objection, this information will be made part of the record, with the exception of the financial data which is on file and available for public inspection in the Committee offices.

I am particularly pleased this morning to not only be chairing this hearing but also introducing one of the nominees, Robert Rider. He is a trend-setter in Delaware's agribusiness, a respected community leader, and, most important of all, a good friend.

Bob Rider has been involved in the family agricultural business for almost 40 years and has served in innumerable leadership roles in agricultural organizations dedicated to the improvement and continuance of the farming industry. Additionally, Bob has given generously of his time and abilities to serve on the boards of var-

ious Delaware companies and non-profit concerns and, of course, has been very active in the University of Delaware as well.

During my time of public service, Bob has been known throughout Delaware as a leader, a leader in business and a committed community servant. I believe that Bob brings exactly the type of no-nonsense business experience and civic awareness that is needed to help guide the Postal Service into the challenges of tomorrow. I am delighted that he has accepted the President's invitation to take on this new task.

At this time, I would like to introduce and recognize Members of Congress for their introductory comments. I know that Senator Specter plans to be here, but he is going to be a few minutes late. But we are delighted to have Representatives Borski and Fattah here, so please proceed.

TESTIMONY OF HON. ROBERT A. BORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. BORSKI. Thank you very much, Mr. Chairman.

It is my privilege to come before you today in support of the nomination of David Fineman to serve on the Postal Board of Governors.

I come before you in support of Mr. Fineman's nomination based not only on his established record as a prominent Philadelphia attorney, but on his equally distinguished history as my close friend.

I have known David Fineman for more than a dozen years. I have watched his professional achievements with admiration, I have observed his public service with government agencies with respect, and I have enjoyed his loyal friendship, his guidance. He has been my rabbi.

I am particularly pleased, Mr. Chairman, as the son of a letter carrier, to strongly support David Fineman's nomination. He will be an asset to our government and an asset to the Postal Services.

Thank you very much for giving me this opportunity.

Chairman ROTH. Well, thank you for being here, Mr. Borski.

Mr. Fattah, we are delighted to have you here.

TESTIMONY OF CHAKA FATTAH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. FATTAH. Mr. Chairman, thank you for the opportunity.

I also come to speak on behalf of my constituent, Mr. Fineman, for this nomination and to encourage his favorable consideration by this Committee. He is someone who as a businessperson, a lawyer in my district, and a constituent has been active not only professionally but also in the civic life of Philadelphia through his work on the Board, for instance, of the Free Library, very active in a number of other areas of interest, the OIC and others. And I think that he would be an excellent addition to the Board of Governors, and I just wanted to come to offer my supportive comments on his behalf today.

If I could, Mr. Chairman, there is also another person who is up for consideration today, Ed DeSeve, who is a former professor of mine at the University of Pennsylvania, and we served together in Harrisburg in a number of roles. I would also like to put in a favorable word on behalf of Mr. DeSeve for his position as controller.

Chairman ROTH. Well, thank you. We appreciate that. I know both of you have a heavy schedule. We would be delighted and pleased if you could stay, but we understand that often other duties call.

Mr. FATTAH. Well, Mr. Chairman, you are very wise, and we do have to go. But we want to thank you for the opportunity to have us come and share a few words. We wish both of the nominees from Philadelphia well, and we know that they will serve our great country in an excellent fashion.

Chairman ROTH. Thank you very much.

We will also include in the record the written statement of Senator Santorum in support of Mr. Fineman.

[The prepared statement of Senator Santorum follows:]

**PREPARED STATEMENT OF SENATOR RICK SANTORUM, A U.S. SENATOR
FROM THE STATE OF PENNSYLVANIA**

Mr. Chairman, I wish to convey my full and unwavering support of S. David Fineman, who has been nominated to serve as a Governor on the Board of Governors for the U.S. Postal Service. Mr. Fineman brings with him all of the qualifications necessary to help shape, reform, and modernize the Postal Service as it heads into the 21st Century.

Born and raised in Philadelphia, Mr. Fineman has spent a lifetime dedicating himself to the economic well being of Southeastern Pennsylvania. He currently serves as special counsel to the Commonwealth of Pennsylvania's Secretary of Banking and the Pennsylvania Insurance Commissioner. He also serves on the Industry Policy Advisory Committee, which is jointly administered by the Department of Commerce and the Office of the United States Trade Representative. In addition, Mr. Fineman is a member of numerous Philadelphia and statewide organizations which contribute to the economic and cultural viability of Pennsylvania.

As a successful attorney, David Fineman has extensive experience in representing both the public and private sectors, particularly in relationship to government. This is precisely why Mr. Fineman is so well suited to serve on the Board of Governors. He understands the issues the Postal Service will face over the coming years because he has addressed many of those same issues when representing various State and local governments. Further, Mr. Fineman will bring to the Board a fresh private sector perspective, yet remain attuned to the unique problems facing government entities.

As the U.S. Postal Service plans for the next century, it will continue to face problems both real and perceived. David Fineman will bring to the Board of Governors the kind of policy driven pragmatism the Postal Service needs. I strongly support his nomination as Governor, U.S. Postal Service.

Chairman ROTH. I see my good friend Arlen Specter, so would you please come forward and make appropriate remarks?

**TESTIMONY OF HON. ARLEN SPECTER, A U.S. SENATOR FROM
THE STATE OF PENNSYLVANIA**

Senator SPECTER. Thank you very much, Mr. Chairman.

I regret being a little late, but with the distinguished Chairman of this Committee presiding, he knows what our schedules are like here. And I am delighted to be here to introduce a very distinguished Pennsylvanian, Mr. S. David Fineman, who is up for the position of member of the U.S. Postal Service Board of Governors.

Mr. Fineman is a very distinguished Pennsylvanian, a member of the Philadelphia Bar; he has very extensive background in both the public and private sectors, with government and in the private practice of law. He has served as special counsel to the Secretary of Banking for the Commonwealth of Pennsylvania and is a member of the Industrial Policy Advisory Committee. He has also

served as a managing trustee for the Democratic National Committee.

He has represented various Federal, State, and municipal candidates and elected officials. He comes very, very highly recommended by the distinguished Mayor of Philadelphia, Ed Rendell.

He has an excellent academic background with a bachelor of arts degree from the American University in 1967 and a doctor of jurisprudence from George Washington University in 1970.

He has a beautiful family, which I can attest to. Benjamin is sitting with him, age 8. We just took a picture with his son, Samuel, age 5. They are reminiscent of my family. My two sons are 7 and 4—I mean, 37 and 34. [Laughter.]

Don't let these intervening 30 years slip away from you too fast.

The Board of Governors of the U.S. Postal System is a very important group facing very, very difficult times. And I believe that David Fineman has the potential to make a real contribution there. They are in need of ideas and innovation. It is a very important public service, and we have a Postmaster General who is doing his utmost to bring the Postal Service into modern times. And I think that Dave Fineman can add a great deal.

So it is a great pleasure for me to recommend his confirmation and to appear with him at this moment. So I thank the Chair for recognizing me so promptly, and I thank you for allowing the interruption.

Chairman ROTH. Arlen, we appreciate your being here. We know these are busy times, but it is important that you come for the purpose you did.

Senator SPECTER. Thank you very much, Mr. Chairman. I expect to support the Roth amendment now pending on the floor. [Laughter.]

Chairman ROTH. I appreciate that doubly well.

Now, our Committee rules require that all witnesses at nomination hearings must give their testimony under oath. So I would ask both of you, Mr. Rider and Mr. Fineman, if you would please rise and raise your right hand.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RIDER. I do.

Mr. FINEMAN. I do.

Chairman ROTH. Thank you. Please be seated.

At this point, I would like to give each of you an opportunity to introduce your family members. Bob, do you want to start out and introduce your family members who are here?

Mr. RIDER. Certainly, thank you. I am very happy to have with me today my wife, Barbara; my daughter, Robin Taylor; my son, Robert Rider, Jr.

Chairman ROTH. Well, we are certainly delighted to have all three of them here for this very important occasion. Family is critically important as well, and we are delighted to have each and every one of you join us today.

Now, Mr. Fineman, would you introduce your family members?

Mr. FINEMAN. Mr. Chairman, my wife, Linda Loyd, and my two children, my son Ben and my son Sam; my aunt, who has been my

mother for many years, Dr. Claire Goodis Sopenoff; and my cousin, who has been like my sister, Rosalie August.

Chairman ROTH. Well, we are delighted to have each of them here. It is a proud day, I am sure, for everyone.

Well, at this time would you care to make any statement, Mr. Rider?

TESTIMONY OF ROBERT F. RIDER, TO BE A GOVERNOR, U.S. POSTAL SERVICE

Mr. RIDER. Yes, thank you, Mr. Chairman. I appreciate the opportunity to appear before you today.

I would first like to thank the Chairman, Senator William Roth, for his kind words and many years of support and friendship. Chairman Roth has been an outstanding public servant who has served the citizens of Delaware for nearly 30 years in both the House and the Senate.

I also know that Senator Roth has been a good friend of the Postal Service during his years in Congress, but most importantly, he has truly been a friend whose ability and integrity I have admired for many, many years.

To serve as a Governor of the Postal Service is a great honor and an imposing challenge. Few experiences in corporate America can prepare anyone to serve as a director and a policymaker of an organization that has a \$50 billion budget and over 700,000 employees.

Having said that, I welcome the opportunity to contribute to one of America's most important and revered institutions—the U.S. Postal Service. I can think of no other public or private agency that interacts with all our citizens so frequently and intimately as the U.S. Postal Service does.

If confirmed as Governor, I will bring over 40 years' business experience and public service to the U.S. Postal Service. As director, president, and now chairman and CEO of O.A. Newton and Son Company of Bridgeville, DE, I have a good sense of what business needs to do to satisfy its customers. My lengthy corporate experience has also provided me the opportunity to serve as director of many publicly held corporations as well as other corporations directly related to the public sector.

I will be glad to answer any questions you may have, and, again, I want to thank you for the opportunity to be considered for this prestigious and important position.

Chairman ROTH. Thank you very much, Bob.

David, we would be very pleased to hear from you. Please proceed.

TESTIMONY OF S. DAVID FINEMAN, TO BE A GOVERNOR, U.S. POSTAL SERVICE

Mr. FINEMAN. Mr. Chairman and members of the Governmental Affairs Committee, thank you for the opportunity to appear today as you consider my nomination to be a Governor of the U.S. Postal Service.

I would like to thank personally Congressman Fattah, who is my Congressman whom I have known since he was first elected to our State House in 1983, for his kind remarks and my good friend,

Congressman Bob Borski, with whom I have shared both personal joys and sorrows, for his constant support.

While I will keep my opening comments brief, I do want you to know that I recognize and appreciate the tremendous responsibility that a Governor of the Postal Service must assume. I understand the challenge and the confidence that President Clinton has placed in me in nominating me to this position.

The Postal Service touches the lives of all Americans on almost a daily basis. Consequently, those tasked with establishing and directing its basic objectives have a great challenge as well as a high honor.

Being a student of the law and a practicing attorney, I am keenly aware that the Postal Service is one of the few Federal establishments that has its charter in the Constitution of the United States of America. I believe that my background and experience are well suited to the responsibility of being a Governor. I have been a practicing attorney for nearly 25 years, dealing in both national and international business issues. I have also served on several governmental agencies and commissions involved in public policy issues, as well as representing governmental institutions with problems similar to those confronted by the Postal Service.

I look forward with great enthusiasm to serving as a Governor of the Postal Service if confirmed by the Senate.

This concludes my prepared remarks. I will be happy to answer any questions you may have.

Chairman ROTH. Thank you, David.

As I did indicate earlier, the Committee has submitted some substantive pre-hearing questions on the nominees, and the nominees have also met with Committee staff to discuss a variety of issues of congressional concern regarding the Postal Service.

I happen to think the Postal Service is a critically important one. It is one that is probably the principal one most Americans have contact with. And for that reason, much of the attitude towards government is based upon their experience with this organization.

The other one is the IRS, and I do not think that is always too positive. [Laughter.]

Your written responses to prehearing questions will be placed in the record, so I will not repeat those. But I do have a few additional questions.

I will start with you, Mr. Rider, and then you, Mr. Fineman. One, is there anything you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated? Mr. Rider?

Mr. RIDER. No, sir.

Chairman ROTH. Mr. Fineman?

Mr. FINEMAN. No, sir.

Chairman ROTH. Two, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging your responsibilities as a member of the U.S. Postal Board of Governors? Mr. Rider?

Mr. RIDER. No, sir.

Chairman ROTH. Mr. Fineman?

Mr. FINEMAN. No, sir.

Chairman ROTH. Three, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress if you are confirmed? Mr. Rider?

Mr. RIDER. Yes, sir.

Chairman ROTH. Mr. Fineman?

Mr. FINEMAN. Yes, sir.

Chairman ROTH. Four, what do you think, Mr. Rider, is the most important function for the Board of Governors? And why?

Mr. RIDER. Mr. Chairman, I view the Board of Governors as functioning much like any corporate board of directors; namely, setting major goals and policies and overseeing management. In essence, the stockholders are the general public who look for good service at reasonable rates as opposed to dividends and profits.

The Board must position the Postal Service to be able to respond quickly to satisfy the ever changing needs of the public and to give competitive service at a competitive price.

Chairman ROTH. Thank you.

Mr. Fineman?

Mr. FINEMAN. Mr. Chairman, I think that the role of the Board of Governors is very similar to that of a large corporation in which we sit as a board, not involved with day-to-day management but, rather, involved with the setting of priorities, the setting of goals for the Postal Service. It is also my belief that it is important that we understand that the Postal Service is there to serve all Americans who expect to get their mail delivered in a timely and efficient and predictable fashion.

Chairman ROTH. Well, gentlemen, I appreciate your appearing here. These are all the questions I have. I think we are fortunate to have individuals of your caliber willing to serve on the Postal Board of Governors.

Considering our Committee's longstanding interest in postal matters, you can be assured of a continuing congressional oversight of the actions taken by the Board.

We do plan to have a business meeting of this Committee Thursday to vote on your nominations, and hopefully that will follow with swift consideration by the full Senate.

I want to thank you both very much, and we will recess very briefly before moving forward with our next nominee.

[Recess.]

TESTIMONY OF G. EDWARD DeSEVE, TO BE CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Chairman ROTH. We are now very pleased to proceed to the nomination of Ed DeSeve to serve as controller to the Office of Management and Budget.

As I indicated previously, our Committee does require that all witnesses be sworn, so would you please stand and raise your right hand?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DESEVE. I do.

Chairman ROTH. Please be seated. It is a pleasure to welcome you here, Mr. DeSeve. As with the previous nominees, your responses to the Committee biographic questionnaire and pre-hearing questions will be made part of the hearing record.

Chairman ROTH. I also have a statement from Senator Glenn, who regretfully could not be here. He wants to welcome you for your confirmation as controller. I will just read the first couple of sentences.

He says, "I have read Mr. DeSeve's responses to the Committee's extensive pre-hearing questions, and I thought they reflected an excellent grasp of the issues and challenges he will be confronting. He brings the qualifications and skills needed to this tough job, and I could think of no better candidate. I only regret it has taken some time to get to this point."

As I have already said, the statement will be made part of the record.

[The prepared statement of Senator Glenn follows:]

PREPARED STATEMENT OF SENATOR JOHN GLENN, A U.S. SENATOR FROM THE STATE OF OHIO

I want to welcome Ed DeSeve for his confirmation as Controller.

I have read Mr. DeSeve's responses to the Committee's extensive pre-hearing questions and I thought they reflected an excellent grasp of the issues and challenges he will be confronting. He brings the qualifications and skills needed to this tough job, and I could think of no better candidate. I only regret it has taken some time to get to this point.

As one of the main proponents of the CFO Act, along with our distinguished Chairman, I look forward to working with Mr. DeSeve to carry out the Act's goals. Indeed, we now have had some experience with the pilot financial statement audits required under the CFO Act. These audits have clearly shown the important results that can come from requiring annual financial accountability.

Indeed, these audits have already resulted in the following:

- significantly more accurate and useful information on the government's financial status and its operations;
- a more in-depth understanding of the extent and pervasive nature of the internal control and financial management systems problems facing government;
- substantial savings of resources through recovery of funds due the government, and a more efficient use of funds;
- a better knowledge of the limited extent to which the Congress and program managers can rely on the financial information they receive; and,
- improvements in management's accountability for, and focus on, strong financial management, especially the need for effective controls and systems.

The governmentwide financial statements that flow from the process of preparing and auditing agency-level statements are critical in providing an overall accountability report to the American public. It will help determine, in part, how are resources are being spent and for what purpose.

You will have a lot of work to do, and I hope you will closely associate yourself with this Committee. Do let us know how we can help you.

I also want to acknowledge our other nominees, for the Postal Board of Governors. I think they bring good perspectives to the Board, and know they will offer strong contributions.

I look forward to swift Committee action on these and other pending nominations. Thank you.

Chairman ROTH. Our nominee this morning is only the second individual nominated for this position, which was created by the Chief Financial Officers Act of 1990.

Before I proceed, I think maybe Mr. Borski might like to make some preliminary remarks. Mr. Borski?

Mr. BORSKI. Thank you very much, Mr. Chairman.

It is my great honor today to be here with the second very prominent Philadelphian. Mr. DeSeve has had a long and distinguished career in private practice and in government service, and I can think of nothing that would put him in better stead to be the chief financial officer of the treasury of the government of the United States than his previous service as finance director of the City of Philadelphia in which he served long and well and with distinction. And if he can balance the budget in the City of Philadelphia, Mr. Chairman, he can do great things for the United States of America as well.

I am proud to be here with Mr. DeSeve. Again, thank you for your consideration.

Chairman ROTH. Thank you. As I was saying, our nominee this morning is only the second individual nominated for this position, which was created by the Chief Financial Officers Act of 1990. The CFO Act addressed the need for strengthened financial management in a comprehensive manner.

In addition to the controller position at OMB, the act created chief financial officers in 23 Federal agencies. Mr. DeSeve served as the CFO at HUD prior to moving over to OMB at the end of last year, as he awaited confirmation. Thus, he brings with him first-hand experience of the challenges faced by the agency CFOs in bringing about the much needed financial accountability in the Federal Government.

In addition to the CFO Act, we created another valuable management tool with enactment of the Government Performance and Results Act. Both the CFO and GPRA were passed out of this Committee with strong bipartisan support. The Committee will continue to work in a bipartisan manner to support increased accountability through good financial accounting practices and establishment of performance measures to ensure that government operates as efficiently and effectively as possible.

The nominee has responded in writing to a detailed set of policy questions, and they will be placed in the hearing record.

Chairman ROTH. Further, the nominee has met with Committee staff to discuss a variety of relevant issues. At this time there are a few standard questions we ask of all nominees.

One, is there anything, Mr. DeSeve, you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. DESEVE. No, Mr. Chairman.

Chairman ROTH. And do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibility of controller at OMB?

Mr. DESEVE. No, Mr. Chairman, I do not.

Chairman ROTH. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress if you are confirmed?

Mr. DESEVE. Yes, Mr. Chairman.

Chairman ROTH. What do you consider to have been your major achievements as the CFO at HUD? And how do you expect those and previous achievements have prepared you for the OMB controller position?

Mr. DESEVE. There were three major problems at HUD that were very similar to those cited in the Chief Financial Officers Act: first, HUD's financial systems needed significant improvement; second, the overall management control environment within HUD was declared itself a material weakness; and, third, the process of planning and resource allocation needed to be fixed.

We were able, working with the career staff at HUD as well as with the appointed staff of the Department, to make significant progress in each of those areas. The inspector general is currently working on some verification of those items, but I think those are consistent with the kinds of objectives we need to deal with across the Government; that is, audited financial statements. HUD was able to produce audited financial statements, and of the three components, two of them—FHA and Ginnie Mae—received a clean opinion. This needs to be carried throughout the rest of the Government.

Systems plans are now in place and well underway, and those systems plans need to be continually updated to provide the Committee the kind of information that is necessary in the context of GPRA.

And, finally, there needs to be a re-engineering at HUD and elsewhere of the management control environment so that the detection of problems rather than—I am sorry, that the prevention of problems rather than their detection is the focus of management control.

Chairman ROTH. Mr. DeSeve, I would like to ask you at this stage whether you have any remarks you would like to make?

Mr. DESEVE. Mr. Chairman, I will submit them for the record.

Chairman ROTH. Very good.

[The prepared statement of Mr. DeSeve follows:]

PREPARED STATEMENT OF G. EDWARD DESEVE

INTRODUCTION

Thank you, Mr. Chairman, Senator Glenn, and members of the Committee. I would like to begin by recognizing my wife, Karren DeSeve, who has provided love and support for more than 25 years. Together with our son, Gerry, Karren has given me everything that anyone could want in a family life.

I also want to thank the members of the Pennsylvania delegation for their support. My permanent home is still in Pennsylvania and the opportunities that I faced while in Philadelphia and Harrisburg helped to prepare me for my new assignment.

The three people most responsible for having me take on this assignment are: President Clinton, who nominated me; John Koskinen, who recruited me, and Alice Rivlin who welcomed me to the OMB staff. I will do everything I can to reward their trust by doing the job that is before me. The opportunity to work with Alice Rivlin was a primary motivation in my decision to take on new responsibilities.

LOOKING AHEAD

In passing the CFOs Act in 1990, the Congress set out with a clear vision of what it wanted to achieve:

"Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of government resources. Provide for the production of complete, reliable, timely, and consistent financial information for use by the Executive Branch of the Government and the Congress in the financing, management, and evaluation of Federal programs."

To do this, it designated that 23 agencies have permanent Chief Financial Officers. The Social Security Administration was added, upon its creation, as a separate entity. Currently, 20 of the 24 CFO positions are filled: one Department has forwarded a nomination to the Congress; two positions, which were previously confirmed, are in the final stages of selection; and the fourth is filled by a career assistant secretary.

The high quality of the CFOs is further complimented by their career Deputies. These men and women typically have had long and distinguished service and bring a seriousness of purpose to financial management. As impressive as the members of the group are separately, the CFOs and Deputies combined last year to form the unified CFOs Council. The Council has energized the pace of activity setting out a Vision Statement and a set of Goals and Strategies that clearly delineate how the intent of the CFOs Act will be carried out.

However, this is only a first step. Earlier this year, OMB proposed that the CFOs Council work with the Office of Federal Financial Management to revamp the statutorily required Federal Financial Management Five Year Plan and Status Report. The Council accepted the challenge and at its annual retreat began developing, along with OMB, the priorities for the next two and five years. These will be formally ratified by the Council in June along with explicit work programs.

Two of the highest priorities identified by the Council are financial systems and audited financial statements. These are extensions and reaffirmations of the original goals in the CFOs Act. While progress has been made in reducing the number of financial systems in each agency, more needs to be done. The concept of the single integrated financial system for each agency is now clearly spelled out in OMB Circular A-127 and the Joint Financial Management Improvement Program Core Financial Systems and Financial Systems Framework documents.

A schedule of off the shelf software is available and is in wide use throughout the Federal Government. Agencies developing new systems are required to use this software or seek waivers from OMB explaining the reason for a deviation. Vendors are being continually urged to update products to become more functional, and thus competitive.

Audited financial statements have found wide acceptance throughout the government, but, again, more work is needed. Since 1991, the number of entities submitting audited financial statements has almost doubled from 55 to 103. Of these, 47% have received clean opinions. This is up from 34% in 1991.

Two recent developments, both of which were in the Government Management Reform Act of 1994 (GMRA), highlight the effort regarding financial statements. They are: (1) the extension of the requirement for agency wide financial statements to virtually every major entity in the Federal Government, and (2) the requirement for the governmentwide audited financial statement.

The first development brings a heightened sense of urgency to the preparation of audited financial statements. The second sets a context or framework for consolidation across agencies. The General Accounting Office is leading the audit team on what will be the largest audit in history. OMB, Treasury and agency representatives are all working to identify the scope of the task. Together, they are learning how to use governmentwide information systems more effectively and identifying systems and procedural short comings that need to be remedied.

But the purpose of audited financial statements is not just to put information between the covers of a book. The primary purpose is to insure the integrity of the data and the systems that produce it. Nowhere is the integrity of that data more important than in the accomplishment of the third major CFOs Council Priority: implementation of the Government Performance and Results Act. (GPRA)

This Committee needs no background on GPRA. This is the home of GPRA. The fundamental premise is simple—connecting resources and results. Being able to answer the fundamental question, "What are we getting for what we are spending?" To do this, the first two CFO Council Priorities are critical. Without good financial systems that can marry program information and cost information, managers will never have a timely assessment of cost and performance. Again, the integrity and timeliness of the data is critical. To make mid-course corrections, the agencies, OMB and Congress all need timely information.

In making GPRA implementation one of its top three priorities, the CFO Council recognized the law's importance, but also sought a context in which to implement it. The Council called upon OMB to describe how the initiatives of GPRA, the CFOs Act, and the IGs Acts all tied to each other and to the budget process. This is the same question that the chairs of this Committee asked the GAO to examine in designing a "Practical Framework" for examining legislation passed over the last several years.

OMB is in the process of sorting out how to do this. Currently, a Spring Review of Performance is underway. This review will identify key areas and will look at the status of collecting performance measures for budgetary purposes. This will be followed with broader guidance on how to use this information in the FY 97 budget looking forward to the performance budgeting requirements in later years.

We will need Congress' help. For one thing, collecting information is greatly assisted by having budget accounts that conform to program outputs and organizational structures. It is exceptionally hard to use multiple accounts to demonstrate and cost performance. It is even harder to break a single account into sub-sets and keep track of the outputs that these are producing. In several Appropriations Committees, agencies have been able to rationalize their structures. OMB has supported this effort and looks forward to expanding it.

A second initiative that will require Congressional intervention is report streamlining. Using the waiver authority granted in GMRA, OMB and the CFO Council have approached Congress regarding the streamlining of several statutory reports into a planning report and an accountability report. Pilots are contemplated during the next two years that will help determine how additional initiatives, including the Federal Managers Financial Integrity Act (FMFIA) process, can be streamlined and provide better information. The purpose of a management control structure, building on weaknesses identified by IGs and as part of the audited financial statement process, should be to design programs that are free of weaknesses, not to catch problems after the fact.

This ambitious agenda was given impetus by the Acts of this Committee and has the enthusiastic support of CFOs, IGs and agency program managers throughout the Federal Government. The challenge for the Controller of the Office of Federal Financial Management is to take a great beginning and ride the momentum into results. I hope that you will give me a chance to do that. I will be happy to answer any questions that you have. Thank you.

Chairman ROTH. My next question to you, Mr. DeSeve, is: What objectives would you like to achieve as controller?

Mr. DESEVE. I think the carrying out of the Government Performance Results Act and integrating it with the budget process is a unique contribution that I could bring to the Office of Federal Financial Management. The ground work has been laid in the Chief Financial Officers Act for getting data that has integrity, getting data that is timely, getting data that can be produced by systems that themselves are capable of audit and capable of producing that information.

What we have not done yet is united those elements in what you referred to in a letter to the Comptroller General as a practical framework for integrating the IG's Act, the Federal Managers Financial Responsibility Act, the CFO's Act, the Government Performance and Results Act, and the Government Management Reform Act into a unified whole, and pairing those with the budget process to bring the full weight of the Federal budget process to bear on answering the very simple question: What are we getting for what we are spending?

It is a deviously simple question in that it seems to beg a very simple answer. Unfortunately, the ability to produce high-quality performance information and pair that performance information with the cost of achieving that performance will take a significant amount of time.

This Committee was very wise in the Government Performance and Results Act to recognize the implementation horizon that will bring us into performance budgeting just before the turn of the century. But to get there, a tremendous amount of ground work is necessary. It is necessary at OMB, within the RMO organizations, within the Budget Resource Division, within the Office of Federal Financial Management. It is also necessary within the agencies, as

the agencies ask very hard questions of themselves and accumulate data that they have never really accumulated before and match it with cost information that they have not generated in the same way before.

We will also need Congress' further help. We will need Congress' further help in streamlining budget structures. Often, the Appropriations Committees, who had not, when they put the appropriations structures in place, been thinking about the measurement of results and the costing of those results, designed structures that were designed for other purposes, so that appropriation accounts do not line up with the objectives of the organization.

We are going to need your help in working with your colleagues. Some of them have been very forthcoming in trying to help redesign the structures to meet some of the needs of GPRA.

We are going to need Congress' help in streamlining reporting. Again, that practical framework that you asked the Comptroller General to look into really could break down into a planning report that encompassed both the budget and the performance plan, as well as an accountability report which encompassed the performance report and the audited financial information of an organization, as well as its FMFIA reports, its management integrity reports.

Thinking about how we design those reporting structures and get that information to Congress on a timely basis will require continued dialogue. We have begun that dialogue under GMRA in invoking some of the ability to have pilots and come forward. We would like to continue that dialogue as we design some pilots and move forward on report streamlining.

Those are my objectives for the Office of Federal Financial Management.

Chairman ROTH. Well, you have anticipated a number of questions I was going to ask. We will submit several of them to you so that they can be expanded on in writing.

As I said, we may have a question or two more we will submit to you in writing, although it is my hope that we will proceed with the Committee action this coming Thursday.

I want to thank you for being here today, and as I said, we do look forward to expeditious handling of your confirmation. We appreciate very much your being here and wish you well in your new endeavors upon confirmation.

Mr. DESEVE. Thank you, Mr. Chairman.

In sending my prepared statement to the Committee, I did fail to recognize my wife, Karren, who is with me today, and who for more than 25 years has been a source of love and inspiration in our life, our son, Gerry, is out of the country now and could not be with us today. But an important thing to me is having a family life that allows me to be a contributing member of society and hopefully to take on some of these responsibilities. So I did not want to fail to recognize my wife.

Chairman ROTH. I apologize to you, Mrs. DeSeve. I did not realize you were here. We are delighted that you could be here on what I consider a very important day in your husband's extremely successful career. So we wish you well.

Thank you very much. It is a pleasure to have you.

Mr. DESEVE. Thank you, Mr. Chairman.

Chairman ROTH. The Committee is in recess.

[Whereupon, at 11:45 a.m., the Committee was adjourned.]

APPENDIX

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE ROBERT F. RIDER, GOVERNOR, U.S. POSTAL SERVICE

A. BIOGRAPHICAL INFORMATION

1. Name: Robert Farrington Rider
2. Position to which nominated: Governor, U.S. Postal Service
3. Date of nomination: May 6, 1995
4. Address:
Residence: 119 East Side Drive, Rehoboth Beach, DE 19971
Office: P.O. Box 397, Bridgeville, DE 19933
5. Date and place of birth: October 14, 1928, Glens Falls, NY
6. Marital status: Married—Barbara Boyer Rider
7. Names and ages of children: Robin R. Taylor, 41; Elizabeth R. Stone, 39; Wendy R. Heyd, 38; Terry R. Zittel, 35; and Robert F. Rider, Jr., 31
8. Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.
Glens Falls, NY: Glens Falls, New York High School, Academic Diploma 1942–1946
Potsdam, NY: Clarkson College 1946–1948
Saratoga Springs: Skidmore College, NY, B.S. in Business Administration 1948–1950
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.
June 1950–October 1950: Beloit Iron Works, Beloit, WI, Design Engineer
October 1950–1952: U.S. Army
1952–1963: Newton Farms, Bridgeville, DE, Supervise packing and sales of farm produce
1957–1969: Newton Realty, Bridgeville, DE, Director, Sec.-Treas. Real Estate and Insurance
1955–1969: Newton Chemical & Supply Co. Bridgeville, DE, Director, President, Treasurer; Sales of agricultural chemicals, fertilizer and petroleum products.
1969–1984: O.A. Newton & Son Company, Bridgeville, DE, Director, President, Treasurer, Executive duties
1984–present: O.A. Newton & Son Company, Bridgeville, DE, Chairman of the Board and Chief Executive Officer, Treas., Director Executive duties
10. Military Service: List any military service, including dates, rank, and type of discharge.
October 10, 1950–October 9, 1952, U.S. Army, Private to Corporal; Honorable Discharge
11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.
Director—Jobs for Delaware Graduates 1985
Member—Small Business Administration, District Advisory Council
Member—Coastal Zone Management Committee

Member—Board on Professional Responsibility of the Supreme Court of Delaware 1984–88

Chairman—Council on State Planning 1971–79

Secretary, Member—Delaware State Apple Commission 1960–69

12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.

No.

13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

Chairman and CEO—O.A. Newton & Son Company, 1984

President 1969–84, Director, 1956

President—Newton Leasing & Finance Co. 1977, Director 1970

President—D.A.R.B., Inc., 1989

Director—Delaware State Fair, 1966

Director—Bank of Delaware, 1984—(now PNC-Del)

Director—Burris Foods, Inc., 1983

Director—Diamond State Telephone Co., 1979 (now Bell Atlantic-Del, Inc.)

Director—Chesapeake Utilities, 1977

Director—Eastern Shore Natural Gas Co., 1977

Director—Dover Exploration Co., 1977

Director—Delaware State Chamber of Commerce, 1986

Director—Blue Cross/Blue Shield of Delaware, 1990

Trustee—University of Delaware, 1986, Member, Executive Committee, 1989, Chairman Buildings and Grounds Committee, 1989, Member Finance Committee

Trustee—Wilmington Medical Center, 1984

Trustee—Secretary and Treasurer, Newton Foundation, 1958

Partner—Newton Investment Co., 1970

Partner—Adirondack Mountain Properties, Unlimited, 1986

Partner—D & D Enterprises, 1989

Partner—B.R.S. of Tennessee, 1989

President, Treasurer and Director—Newton Chemical and Supply Co., 1955–69

President—National Apple Institute, 1968–69

Director—Baltimore Trust Company, 1955–84, Executive Committee, 1973–84

Director and Vice President—Newton Farms, Inc., 1952

Director—Nanticoke Memorial Hospital, 1965–84, 1988–93, President, 1976–78

Director, Secretary and Treasurer—Newton Realty, Inc., 1955–70

Director, Secretary and Treasurer—Cedar Creek Yacht Basin, Inc., 1957–69

Director, Secretary and Treasurer, Pearce Oil Co., 1957–59

Director, Secretary and Treasurer, Aptt Oil Service, Inc., 1957–60

Owner and Operator—Moss Lake Camp, 1970–75

Owner and Operator—Bent Lee Farms, 1984–85

Partner—R & S Realty, 1979–87

Partner—R & F Enterprises, 1974–89

Partner—R & B Enterprises, 1974–90

Owner—Lindenmere Farms, 1977–1993

14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Member—Delaware Bankers Association Agricultural Committee 1962, Chairman 1967–1979

Member—Delaware Round Table 1980, Chairman 1983–84

Trustee—National Apple Institute 1960–69, President 1968–69

President—Parent Teachers Association 1962

President—Peninsula Horticultural Society 1957–58

Director—Nanticoke Memorial Hospital 1965–84, 1988–93, President 1976–78

Director—Bridgeville Cemetery Association, 1977–89, President 1977–82

County Director—American Farm Bureau 1961–63

Member—Lions International

Member, Toastmasters International 1964–66

Member, Delaware Crop Improvement Association, President 1968

Member—Board of Governors, Winterthur Corporate Council 1989–93

15. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None.

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

1990

Richard Cordrey Campaign Committee (\$50)
Sussex County Republican Committee (\$1,000)
Friends of Adams for Senator (\$50)
Bennett '90 Committee (\$50)
B-Del Pac (\$50)

1991

Sussex County Republican Committee (\$1,000)
B-Del Pac (\$50)

1992

Wyer '92 Committee (\$1,000)
Friends of Adams for Senator (\$100)
Richard Cordrey Reelection Committee (\$75)
B-Del Pac (\$100)
Sussex County Republican Committee (\$50)
B. Gary Scott for Governor '92 (\$100)
Citizens for Dave Kenton (\$100)

1993

B-Del Pac (\$100)
Roth for Senate Committee (\$200)
Edward J. Bennett (\$100)

1994

B-Del Pac (\$100)
Roth for Senate Committee (\$500)
Rzewnicki Campaign (\$100)

1995

None.

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

None.

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

None.

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

None.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

No.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen for this nomination upon the recommendation of Senator William Roth, based upon my qualifications for service on the Board.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I have had over 40 years of business experience. My service on large Corporate Boards, including a Bank, Telephone Company, and many others as well as operating a small business provides a broad background. Also I have had a very strong deep commitment to public service through many years which include being a Trustee of the University of Delaware, President of the Delaware State Fair, President of the Nanticoke Memorial Hospital and many other volunteer efforts.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

No, it is my understanding that my nomination is to a part-time position that does not preclude my continuing as Chairman of the Board of O.A. Newton & Son Company.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

Yes, as stated above it is my understand that if I am confirmed to this position it will not require me to step down from my present job as Chairman of O.A. Newton & Son Company.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

Again it is my understanding that this position to which I am nominated is a part-time appointment that does not preclude my continuing as Chairman of the Board of O.A. Newton & Son Company.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

If confirmed, I expect to serve out my full term.

C. POTENTIAL CONFLICTS OF INTEREST

1. Described all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

At O.A. Newton & Son Company I receive a fixed salary plus a bonus based on profits. I will continue to receive directors fees from PNC Bank-Del, Bell Atlantic-Del, Burris Foods, Blue Cross/Blue Shield-Del, Chesapeake Utilities and my share of various partnerships and S. Corporations. To my knowledge these present no conflicts of interest. However, I will be especially vigilant to any potential conflict of interest or appearance of a conflict of interest and will react accordingly.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

There are none.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

There have been none.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

There have been none.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements)

I will disqualify myself and not participate in any discussion or vote on the issue.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense.

No.

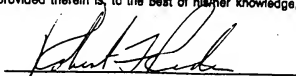
5. Please advise the Committee on any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

No additional information.


E. FINANCIAL DATA—RETAINED IN COMMITTEE FILES

AFFIDAVIT

Robert F. Rider, being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.



Subscribed and sworn before me this 10 day of May 1995


Notary Public

PRE-HEARING QUESTIONS FOR ROBERT F. RIDER TO BE MEMBER, BOARD
OF GOVERNORS, U.S. POSTAL SERVICE

I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

1. Why do you believe the President nominated you to serve as a Governor of the U.S. Postal Service?

I believe I was nominated upon the recommendation of Senator William Roth who has followed my business career for over 20 years and is well versed in my qualifications.

2. What specifically in your background or employment experience affirmatively qualifies you for this appointment, and what contributions do you feel you can make to the Postal Service as a Member of its Board of Governors?

I have had over 40 years of business experience. My service on large Corporate Boards, including a Bank, Telephone Company, and many others as well as operating a small business provides a broad background. Also I have had a very strong deep commitment to public service through many years which include being a Trustee of the University of Delaware, President of the Delaware State Fair, President of the Nanticoke Memorial Hospital and many other volunteer efforts. I would hope that this business experience can be utilized to increase efficiency and service, lower costs, increased customer satisfaction, and meet the challenges ahead.

3. Were any conditions, expressed or implied, attached to your nomination to be a Governor of the U.S. Postal Service?

No.

4. Please specify any commitments you have made with respect to the policies and programs you will attempt to implement as a Member of the Board of Governors?

None.

5. Are there any issues involving the Postal Service from which you may have to disqualify yourself? If so, please explain.

I am not aware of any such issues.

II. ROLE AND RESPONSIBILITIES OF THE POSTAL SERVICE BOARD OF GOVERNORS

1. What do you consider to be the role of the Board of Governors of the Postal Service? What do you believe are its more important functions and responsibilities?

I view the Board of Governors as functioning much like any Corporate Board of Directors; namely, setting major goals and policies and overseeing Management. In essence, the stockholders are the general public who look for good service and reasonable rates as opposed to dividends and profits. The Board must position the service to be able to respond quickly to satisfy the ever changing needs of the public and to give competitive service and prices.

2. What do you believe are the major challenges confronting the Postal Service, and how do you propose to address them?

To meet the needs of the customer, to be competitive in the market place, and to increase its customer base.

3. What objectives would you like to achieve in your tenure as a member of the USPS Board of Governors, and why?

To meet the challenges set forth in No. 2 above.

4. What is your view of the relationship between the Board of Governors and the Postmaster General?

Very similar to the Board of Directors and the CEO of any corporation. The Board should work with the Postmaster General and his Management Team to implement policies that are made by the Board and by Congress. The Management Team should carry out the policies. The Board bears the final responsibility for the performance of the Service. Therefore, it must be fully informed by the Management before making decisions and be satisfied at all times that policy is being carried out. If it is not the Postmaster General must take appropriate corrective action.

5. How do you envision the relationship and the nature of your duties as they relate to:

(a) the Congress:

It is my understanding that Congress determines basic national postal policies. Therefore, the Board of Governors must ensure that the policies mandated by Congress in the Postal Reorganizational Act of 1970, and any other legislation that they may enact, are carried out.

(b) the President:

The Board of Governors is appointed by the President of the United States and is, therefore, accountable to the President.

(c) the public:

The public is the ultimate customer of the Postal Service and should expect to receive a product both efficiently and at a reasonable, competitive price. It is the function of the Board of Governors to see that the Postal Service provides this service.

6. During recent months there has been some strain between the Postal Service and the Postal Rate Commission. How do you view the respective roles and the relationship between the Board of Governors and the Postal Rate Commission?

As I understand the existing statutes, the Postal Rate Commission structures rates, subject to the Board's review, to produce sufficient revenue to operate the Postal Service. In today's economic climate, businesses must be able to react quickly to customers' needs, product mix, and many other factors or risk not being competitive. I would hope the Postal Service and the Postal Rate Commission could work together as a team to make the timely decisions needed to ensure the financial integrity of the Service while still keeping it competitive in the market place.

III. POLICY AND MANAGEMENT ISSUES

Recent developments indicate that five key issues will likely dominate future debate and congressional deliberations regarding the future role of the U.S. Postal Service as follows:

1. Is fundamental reform needed in the laws and regulations that govern U.S. mail system?

I am aware that the statute is 25 years old and could very well need re-viewing, especially in view of the rapidly changing needs and demands of the U.S. Postal Service's customers.

2. Should the Private Express Statutes, which give the U.S. Postal Service the exclusive right to deliver letter mail, be repealed or substantially reduced in scope?

It is necessary for the U.S. Postal Service to have a large volume of product in order to provide 6-day-a-week service to every household in the United States. Any changes that would allow cherry picking would probably be detrimental and would have to be examined very closely.

3. How can Congress and the executive branch encourage and assist postal management and unions to address longstanding and severe labor-management problems in the U.S. Postal Service?

Good management-labor relations are a necessity in any successful business. Good employee moral insures customer satisfaction through efficient service at a reasonable cost. At this point, I do not know enough to comment on any specific problems.

4. What legislative and/or administrative changes are needed to reduce the time and expense required to adjust postal rates and better recognize the mission, role, and expectations of the U.S. Postal Service in today's communications environment?

Again, the Postal Reorganizational Act of 1970 is 25 years old and could very well need revising. As I stated above, the needs and demands of the U.S. Postal Service have changed dramatically in 25 years. I do not know enough at this point to comment on any specific changes.

5. To what extent should the Postal Service offer new and nontraditional electronic-based services, such as "e-mail" communication, or should it stick to hard copy delivery services?

In my opinion, the U.S. Postal Service, just like any other business, should always be looking at new products and how to better promote their existing products by modifying or changing them, if needed.

CUSTOMER SERVICE

Recent GAO studies have indicated that the Postal Service is not meeting its publicized goal of delivery 95 percent of the mail on-time. In fact, according to the Postal Service's latest External First-Class Measurement System data, only about 84 percent of the First-Class Mail arrives on schedule. GAO has noted delivery problems in other areas as well. For example, Priority Mail is advertised as a 2-day service but, in recent Postal quarters, has only met the delivery standard from about 77 percent to 85 percent of the time.

1. Does the GAO assessment of the Postal Service fit with your own perception of the Postal Service's performance? What areas of service do you believe the Postal Service needs to focus on?

I have no preconceived thoughts on the Postal Service's performance nor can I comment on the GAO's studies since I have not read them at this time. However, it is important in any business to set goals, to be able to measure how those goals are being met; and if not being met, make plans to meet the goals or change them if they are unrealistic.

2. In light of the fact that some private sector delivery services have a good reputation for "on time" delivery, and because there are more and more alternative delivery methods being developed by an innovative private sector, to what extent do you see the Postal Service losing market share to the private sector? How might the Postal Service improve its on-time delivery service in order to remain competitive for the long-run?

Again, I cannot comment since I do not have any data on share of market studies. However, I think one would want to study the competitors very thoroughly and then take whatever steps are necessary to not only compete, but to excel.

REFORM OF THE POSTAL SERVICE

The Postal Service's environment has changed in the past 15 years. But, there has been no substantive change in the Postal Reorganization Act 1970. Proposals have been submitted recently to "privatize" the Postal Service (i.e. transfer ownership to employees), reduce significantly the scope of the mail monopoly, and give the Postal Service greater authority to compete with the private sector.

1. What are your views on privatization and other proposals for reform of the Postal Service?

Again, the Postal Reorganization Act of 1970 is 25 years old and, as I stated earlier, should be reviewed. However, I have no pre-conceived ideas on any changes at this time.

THE MAIL MONOPOLY

Under a set of laws known as the Private Express Statutes dating back to the 1700s, private carriers cannot deliver letters unless the Postal Service receives the postage otherwise due on those letters and other conditions are met (e.g., the letters are placed in a sealed envelope and the envelope is addressed). The Statutes have been justified on a public policy and economic basis. The Postal Service has a statutory mandate to provide universal mail service, and, from an economic theory standpoint, only one supplier (the Postal Service) should deliver mail, lest private carriers capture the easier to serve (i.e., low cost) areas, thereby reducing the overall efficiency of mail delivery services. The 1970 Act allows the Postal Service to suspend any portion of the letter mail stream from the Private Express Statutes. In 1970, the Postal Service suspended extremely urgent letter mail. Still, more than 80 percent of the total mail volume (177 billion pieces in 1994) is covered by the Private Express Statutes.

1. What are your views regarding the repeal or further suspension of the Private Express Statutes?

I do not know enough to comment at this time. It would be necessary to examine thoroughly any proposal, study and understand the impact of the proposal, and only then come to a decision on any change.

LABOR-MANAGEMENT RELATIONS

Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress in reinventing the organization or changing its culture if relations between management and labor leaders are adversarial.

1. What do you see, if anything, the Board of Governors might do to encourage and facilitate greater cooperation between postal management and labor unions?

The Board has to insure that the correct Management/Employee relations are in place to insure cooperation in the workplace at all times, good communications, and promote good attitudes and morale. Team effort is the ultimate goal.

2. Should postal employees be given the right to strike?

At the present time, it is against the law. I see no reason to change the statute at this time.

RATE POLICY AND PROCESSES

Several studies have documented the long delays and conflicts arising out of the Postal Service's efforts to change postal rates. The Postal Service also argues that certain pricing criteria contained in the 1970 Act, such as restrictions on volume-based pricing, no longer serve its competitive interests. Past studies have resulted in recommendations, but no substantive actions, to change both the process and the policies governing the revision of postal rates.

1. What are your views regarding alternative policies and processes for setting postage rates?

I cannot comment since I do not have enough information to form an opinion.

NEW POSTAL PRODUCTS

The Postal Service believe that it needs greater authority in introducing new products in the various markets. The Postal Service has a number of market research efforts underway that could result in new product offerings. For example, in some areas of the country, the Postal Service will be offering what it calls "Fastnet," which is next-day delivery of parcels ordered over interactive television (the home shopping network).

1. What are your views on the Postal Service's need for developing new products, such as those being tested in the electronics communications arena?

Positive.

2. What are your views regarding the development of strategic alliances between the Postal Service and private sector businesses for the introduction and delivery of new or existing postal products?

Well worth considering.

OTHER ISSUES

AUTOMATION

The Postal Service's automation program is its principal strategy for controlling the growth of labor cost, which has accounted for about 82 percent of total operating expenses since 1970. The program has been underway for about 12 years and will cost about \$5 billion. Few would argue against the benefits of automation when compared to manual methods of sorting mail. However, because of the Service's inability to control the work force, automation is producing far less than expected and is taking much longer to implement than the Service anticipated.

1. What role and purpose do you see for automation in the Postal Service?

It should be pursued as long as it will increase efficiency and provide better service to the customers.

2. What involvement do you see for the Board of Governors in overseeing the planning and direction of the automation program?

To ensure that the work force is provided the proper training and retraining to implement automation. Selling employees on the benefits is certainly a necessity.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE
S. DAVID FINEMAN, GOVERNOR, U.S. POSTAL SERVICE

A. BIOGRAPHICAL INFORMATION

1. Name: S. David Fineman
2. Position to which nominated: Governor, U.S. Postal Service
3. Date of nomination: January 13, 1995
4. Address: Residence—8233 Seminole Avenue, Philadelphia, PA 19118
Office—1608 Walnut Street, 19th Floor, Philadelphia, PA 19103
5. Date and place of birth: October 23, 1945, Philadelphia, PA
6. Marital status: Married to Linda Loyd
7. Names and ages of children: Benjamin, age 8; Samuel, age 4.
8. Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.
9/59 to 6/63—Central High School—B.A., 6/63
9/63 to 6/67—American University, School of Government and Public Administration, B.A., 6/67
9/67 to 6/70—George Washington University, National Law Center, J.D. with Honors, 6/70
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.
1968—Summer job while in law school, Law Clerk to Benjamin Rosner, Esq., Washington, D.C.
1969—Summer job while in law school, Law Clerk to General Counsel Department of Housing and Urban Development, Washington, D.C.
1969–70—Part-time research assistant to Professor Dixon, Constitutional Law, George Washington University Law School
1970–71—Public Defender, Defender Association of Philadelphia, 121 North Broad Street, Philadelphia, PA.
1971–72—Law Clerk to The Honorable J. Sydney Hoffman, Superior Court of Pennsylvania, City Hall, Philadelphia, PA.
1972–81—Lecturer, Temple University, Business Law.
1972–present—Private practice of law
9/72 to 5/78—Individual practitioner
6/78 to 5/81—Fineman and Garfunkle, Three Penn Center Plaza, Philadelphia, PA.
6/81—Formed the law firm of Berson, Fineman & Bernstein, P.C., which later became Fineman & Bach, P.C., 1608 Walnut Street, Philadelphia, PA.
10. Military Service: List any military service, including dates, rank, and type of discharge.
7/68 to 7/69—United States Army Reserve, Rank E–1
7/69 to 7/74—Inactive Reserve
7/74—Honorable Discharge
11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.
12/94—Appointed as member of Industry Policy Advisory Committee which is jointly administered by the Office of the U.S. Trade Representative and the Department of Commerce.
1991—Member, Intergovernmental Task Force of Philadelphia Mayor Edward G. Rendell. Worked on mayoral transition team responsible for examining relationships between City, State and Federal Governments and suggesting improvements to incoming administration.
1989–91—Member, Philadelphia City Planning Commission
1987—Member, transition team of Philadelphia Mayor W. Wilson Goode. Served incoming mayor as member of 12-person team of advisors responsible for screening, interviewing and recommending persons for all executive-branch positions in city government.
12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate?

No.

13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

(a) Director and President, Fineman & Bach, P.C.

(b) Trustee to Richard J. O'Brien Trusts I and II; Richard J. O'Brien, a close friend and client died on July 16, 1994, and put all his assets in trust, naming me and his sister as co-trustees for the benefit of his 15 year old son.

(c) President, Richard J. O'Brien Adjustment Company, Ltd., a company representing the interests of insurance companies in the adjustment of losses. Mr. O'Brien was the owner of Richard J. O'Brien Adjustment Company, Ltd., the shares of which were transferred to the trust prior to his death. As a result, I have served as President of this corporation since the time of his death. This corporation has sold all of its major assets and is now collecting accounts receivable and paying debts.

(d) As a result of my law practice, my firm and I represent numerous corporations and individuals. Listed below are all clients for whom I have been the originating attorney or for whom I have performed in excess of \$5,000 of billable time in the last calendar year:

Marvin Poer & Company

Sarah Hargrove, Secretary of Banking, Commonwealth of Pennsylvania

Norca Corporation

Northwest Chestnut Hill Neighborhood Group

Ronald Caplan

Richard J. O'Brien Adjustment Co., Ltd.

Pennock Insurance, Inc.

Scottsdale Insurance Company

711 Chestnut Investment Co.

American Claims Management Inc.

Claims Management L.P.

Generali Genamerica Management

Green Tree Insurance Company

Homestead Insurance Company

International Business Machines

Jefferson Insurance Company

Gie Liem

Merchants and Business Men's Mutual Insurance Co.

Monarch Insurance Company

Nautilus Insurance Company

Old Dominion Freight Line

Statesman Insurance Company

Terra Nova Insurance Company

White Hall Mutual Insurance Company

Rittenhouse Management Corporation

Philadelphia Parking Authority

12th & Locust Joint Venture

Pennsylvania Insurance Commissioner

Power Screen International

Thomas Barnelli

Underwriters at Lloyd's of London

14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Board of Directors of Friends of the Free Library of Philadelphia

Board of Directors of Opportunities Industrialization Center

Board of Directors of State of Israel Bonds

American, Pennsylvania and Philadelphia Bar Associations

Defense Research Institute

Pennsylvania Defense Institute

Pennsylvania Trial Lawyers Association

Germantown Jewish Centre

Philmont Country Club

Sporting Club of Philadelphia

Chestnut Hill Community Association
The Pennsylvania Society
National Jewish Democratic Council

15. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years. Listed below:

1992—Served as counsel to the re-election campaign of Congressman Robert A. Borski in a petition to challenge his primary election opponent

1991–92—Managing Trustee, Democratic National Committee

1987—Served as counsel to the re-election campaign of Philadelphia Mayor W. Wilson Goode

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50.00 or more for the past 5 years. See attached lists.

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Appointed by the Philadelphia Court of Common Pleas as one of 40 attorneys to serve as a Judge Pro Tempore, with full power of elected Judge to relieve the backlog of civil cases in Philadelphia.

Selected by the United States District Court for the Eastern District of Pennsylvania as Mediator for Court-Annexed Early Mediation Program.

Who's Who in American Law.

Who's Who in Emerging Leaders in America.

Who's Who in America

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

(a) *"Attorney's Dilemma—Obtaining Proper Fee From Structured Settlement,"* Trial Lawyer's Guide, Winter 1984.

(b) *"Getting Inside the Jury Room: Using Mock Juries to Predict Damage Awards,"* ALI-ABA, Lawyers' Video Magazine, December 1989. (Unable to provide a copy—this was a videotape and written presentation that was used by the ALI-ABA).

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

None.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress?

No.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

I believe the President thought that my representation of clients with a wide variety of interests from the private sector would bring a perspective that could be of service to the U.S. Postal Service. I also believe that he thought my representation of State and local governments would bring a new and different look to the problems of the Postal Service.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

During my professional career, I have had a great deal of experience in representing both the public and private sectors in relationship to government. Particularly, I have represented public authorities on a variety of matters very similar to those which the Postal Service will encounter. I

have also represented numerous businesses in a wide variety of matters, which will bring to the Board of Governors of the Postal Service a level of experience in both government and business which should be of help to the Postal Service.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

No.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government?

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

I am presently the President and Managing Attorney at Fineman & Bach, P.C. and expect to continue in that position.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Over six years ago my law firm represented Federal Record Services, Inc., regarding the negotiation of a Consent Agreement with the U.S. Postal Service.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

During my law firm's representation of Federal Record Services, Inc., we referred them to other counsel in Washington, D.C. to review how pending legislation would affect their business. Their Washington counsel did lobby in regard to that legislation and we were consulted by the client and counsel in that regard.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items.

My firm has not represented Federal Record Services, Inc. for more than three years and would not represent them in the future, and has returned to Federal Record Services, Inc. their corporate records about three years ago and has had no other contact with them.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agent to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group?

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense?

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation?

Yes, see details below:

(a) Approximately 10 years ago, as part of a neighborhood group, we filed an objection to a zoning variance granted to Graduate Hospital of Philadelphia, Pennsylvania. This was known as *Fineman v. Graduate Hospital*, which was litigated before the Zoning Board of Philadelphia County, and before various State courts.

(b) *Capital Care Corporation v. Fineman & Bach, P.C., et al.* This was a claim that was filed by a former client of our firm, whose principal complaint dealt with a former partner of the firm. On February 24, 1990, a Stipulation was entered into by all the parties dismissing Fineman & Bach, P.C. in the United States District Court for the Eastern District of Pennsylvania and a Stipulation has been signed by all the parties dismissing Fineman & Bach, P.C. in the State courts.

(c) *Emery v. Fineman & Bach, P.C., et al.* This action was filed in the Court of Common Pleas of Northumberland County, Pennsylvania. It is alleged that a former associate of our law firm failed to file a cause of action in a timely fashion. This matter is presently being defended on behalf of the law firm and is pending in the courts. It involves an uninsured motorist action in connection with a motor vehicle accident in the State of Tennessee.

(d) *Douglas N. Culp v. Fineman & Bach, P.C., et al.* Court of Common Pleas of Berks County, Pennsylvania, Docket No. 4697-94. In October 1994, a civil summons (not a complaint) was filed by Douglas Culp, a prior client, involving a claim against our firm, which we believe is in the nature of a fee dispute. No Complaint has ever been filed. More than three months ago, a letter was written to Mr. Culp's counsel asking for the factual basis of his client's claim, to which no reply has been received.

(e) There are two lawsuits pending involving Richard J. O'Brien Adjustment Company, Ltd. of which I acted as President, as explained above in my answer to question 13, "Business Relationships". Mr. O'Brien owned Richard J. O'Brien Adjustment Company, Ltd, the assets of which have almost completely been disposed of. The first involves an automobile accident in which Mr. O'Brien was involved. This action is presently being defended by Mr. O'Brien's insurance carrier. The second involves failure of an insurance company, which Mr. O'Brien represented, to pay a claim which was filed in the State of Texas. This matter is being defended by Richard J. O'Brien Adjustment Company, Ltd.'s errors and omissions insurance carrier. It also involved actions which took place prior to Mr. O'Brien's death. I have been informed that this suit should be settled within the next 10 days, through payment by the insurance company involved in this action, with no payment to be made by O'Brien Adjustment Company.

4. Have you ever been convicted (including pleas of guilty or *not contendere*) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. FINANCIAL DATA—RETAINED IN COMMITTEE FILES

PRE-HEARING QUESTIONS AND ANSWERS FOR S. DAVID FINEMAN, TO BE
MEMBER, BOARD OF GOVERNORS, U.S. POSTAL SERVICE

I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

Question 1. Why do you believe the President nominated you to serve as a Governor of the U.S. Postal Service?

I believe the President thought that my representation of clients with a wide variety of interests from the private sector would bring a perspective that could be of service to the U.S. Postal Service. I also believe that he thought my representation of State and local governments would bring a new and different look to the problems of the Postal Service.

Question 2. What specifically in your background or employment experience affirmatively qualifies you for this appointment, and what contributions do you feel you can make to the Postal Service as a Member of its Board of Governors?

During my professional career, I have had a great deal of experience in representing both the public and private sectors in relationship to government. Particularly, I have represented public authorities on a variety of matters very similar to those which the Postal Service will encounter. I have also represented numerous businesses in a wide variety of matters, which will bring to the Board of Governors of the Postal Service a level of experience in both government and business which should be of help to the U.S. Postal Service.

Question 3. Were any conditions, expressed or implied, attached to your nomination to be a Governor of the U.S. Postal Service?

None.

Question 4. Please specify any commitments you have made with respect to the policies and programs you will attempt to implement as a Member of the Board of Governors?

None.

Question 5. Are there any issues involving the Postal Service from which you may have to disqualify yourself? If so, please explain.

No.

II. ROLE AND RESPONSIBILITIES OF THE POSTAL SERVICE BOARD OF GOVERNORS

Question 1. What do you consider to be the role of the Board of Governors of the Postal Service? What do you believe are its most important functions and responsibilities?

The role of the Board of Governors is to supply management directive and overview to the Postal Service and to the Postmaster General, similar to the role of the Board of Directors to a Corporation. It functions to give advice and major policy directives to the staff of the Postal Service. Further, the Board of Governors should as most Board of Directors make decisions on capital funding. The Board also determines all postal rates, and has the responsibility to select the Postmaster General.

Question 2. What do you believe are the major challenges confronting the Postal Service, and how do you propose to address them?

It is difficult at this stage of the process to define the major challenges confronting the Postal Service, without more experience. However, it is clear that the Postal Service is confronted with declining revenues and expenses which are either flat or increasing at a small rate. This imbalance must be corrected. At this time, without understanding more about the operations of the Postal Service, it is difficult to make any objective proposals on how this imbalance should be corrected. However, this matter must be studied and reviewed in detail.

Question 3. What objectives would you like to achieve in your tenure as a member of the USPS Board of Governors and why?

I would hope that during my tenure as a member of the U.S. Postal Service Board of Governors, that I could help the Postal Service to continue to provide service to all Americans in an efficient and economic manner. It is important to all Americans that the Postal Service receive and deliver the mail in a timely, efficient, and predictable fashion. For this to occur, the

Postal Service has to be economically viable and its employees must be willing to complete their jobs in an efficient and workmanlike manner.

Question 4. What is your view of the relationship between the Board of Governors and the Postmaster General?

It is my belief that the Board of Governors should set major policy for the Postal Service and not be responsible for day-to-day management functions. They should be the group that the Postmaster General reports to on a regular basis. They are not to handle day-to-day management functions, rather they set policy, and act as a overview for actions of the Postal Service and the Postmaster General. Although, the Postmaster General sits on the Board, it is not unlike many Corporations, where the Chief Executive Officer sits as a member of the Board of Directors, but ultimately, the Board is responsible for setting out the policy of the Postal Service.

Question 5. How do you envision the relationship and the nature of your duties as they relate to:

(a) the Congress; (b) the President; and (c) the public?

In essence, the Board of Governors are responsible to the public for their actions and the manner in which the Postal Service operates. They must be committed to being responsible to both Congress and the President in regard to the actions of the Postal Service; however, they must be independent, and act without political concerns in making decisions.

Question 6. During recent months there has been some strain between the Postal Service and the Postal Rate Commission. How do you view the respective roles and the relationship between the Board of Governors and the Postal Rate Commission?

At this time, it is difficult for me to comment upon the respective roles and relationship between the Board of Governors and the Postal Rate Commission. However, it seems as though the Board of Governors and the Postal Rate Commission should not necessarily have to have an adverse relationship. The Postal Rate Commission, according to statute, is responsible for making a public record on proposed mail rate and classification changes and recommending decisions to the Board of Governors, who will make a final decision, regarding rates.

III. POLICY AND MANAGEMENT ISSUES

The five keys issues identified in this question are difficult for me to comment upon without having more experience in the operations of the Postal Service. However, it seems to me that these issues should be studied in detail and recommendations made for how the Postal Service will operate in a changing environment.

CUSTOMER SERVICE

Question 1. Does the GAO assessment of the Postal Service fit with your own perception of the Postal Service's performance? What areas of service do you believe the Postal Service needs to focus on?

The GAO assessment of the Postal Service does fit with my own personal perception of Postal Service performance in regard to First-Class mail. As to Priority mail, I have not had a great deal of personal experience and, therefore, cannot comment on the GAO assessment. It is my belief that the Postal Service should focus on the delivery of mail, in an economic and efficient manner, to the vast majority of citizens throughout the United States.

Question 2. In light of the fact that some private sector delivery services have a good reputation for "on time" delivery, and because there are more and more alternative delivery methods being developed by an innovative private sector, to what extent do you see the Postal Service losing market share to the private sector? How might the Postal Service improve its on-time delivery service in order to remain competitive for the long-run?

Without having more experience, and understanding the numbers in greater detail, it difficult to comment on why the Postal Service is losing its market share to the private sector. Further, it is even more difficult to give suggestions on how the Postal Service might improve its on-time delivery service in order to remain competitive, without having a great deal more experience and a greater understanding of the Postal Service oper-

ations. I believe that because of the marketing efforts, and good service of the private sector companies, they have developed more of a market share.

REFORM OF THE POSTAL SERVICE

Question 1. What are your views on privatization and other proposals for reform of the Postal Service?

I believe that privatization of the Postal Service should be studied in detail. However, this is not a matter that should be acted upon without a great deal of study, and understanding of how privatization would effect service and costs to the American public. Privatization should not be a substitute for on-time and efficient service to all sectors of the American public.

THE MAIL MONOPOLY

Question 1. What are your views regarding the repeal or further suspension of the Private Express Statutes?

Without having more information and direct experience with the Postal Service, it is difficult for me to comment upon the repeal or suspension of Private Express Statutes.

LABOR-MANAGEMENT RELATIONS

Question 1. What do you see, if anything, the Board of Governors might do to encourage and facilitate greater cooperation between postal management and labor unions?

It is my hope that the Board of Governors and its labor unions will work together, with an objective towards bringing about excellent service to the public. It is clear that labor-management relations will only work, if there is a mutual respect by both management and the unions for each other. This respect can only be gained by means of communication between the parties. Hopefully, the Board of Governors can help develop an atmosphere and program, which will encourage Postal Management and its Labor Unions to better communicate.

Question 2. Should postal employees be given the right to strike?

At this time, it is difficult to comment in detail about whether postal employees should be given the right to strike. However, if the right to strike means that the American public's reliance upon the Postal Service will be drastically interrupted and the average American would be unable to receive mail in a timely, and efficient manner, then the right to strike should continue to be prohibited. Further, the right to strike must be evaluated from the point of view of the average business and particularly small businesses, in the United States. If business, and particularly small businesses will be drastically affected by a strike, then the right to strike should be prohibited. I would also be concerned about a strike's effect on the volume of mail ultimately captured by the private mailers, and how lower volume, and how lower revenue would effect the operations of the postal service.

RATE POLICY AND PROCESSES

Question 1. What are your views regarding alternative policies and processes for setting postage rates?

At this time, it is difficult for me to comment upon the alternative policies and processes for setting postage rates. Without more experience and knowledge of the processes of setting postage rates, I find it difficult to comment upon these proposals.

NEW POSTAL PRODUCTS

Question 1. What are your views on the Postal Service's need for developing new products, such as those being tested in the electronics communications arena?

It is difficult for me to comment upon the need for the Postal Service to develop new products. However, with a declining revenue base, it seems inevitable that the Postal Service will have to develop new products, understanding that it will be difficult for the Postal Service to decrease its expenses in any dramatic fashion.

Question 2. What are your views regarding the development of strategic alliances between the Postal Service and private sector businesses for the introduction and delivery of new or existing postal products?

If the Postal Service is to develop new products, it must do so in conjunction with private sector businesses and, there seems to be nothing contrary to the Postal Services' mission and its development of new strategic alliances between the Postal Service and private sector businesses. However, this is again something which I believe I would need further study and experience, to develop a more definitive viewpoint.

OTHER ISSUES

AUTOMATION

Question 1. What role and purpose do you see for automation in the Postal Service?

The Postal Service must move into the 21st Century with a more automated program for delivery of the mail. Automation clearly should be utilized to produce a less costly and more efficient product. However, again, without more experience and direction, it is difficult for me to comment in any detail regarding further automation of the Postal Service.

Question 2. What involvement do you see for the Board of Governors in overseeing the planning and direction of the automation program?

As with all programs, I believe the Board of Governors should be setting direction and policy for programs such as the automation program, but should not be involved in the day-to-day operation and changes that are necessary to develop this program.

POSTAL FINANCES

Question 1. Does the Postal Service's "deficit financing" cause any concern for you?

The Postal Service's "deficit financing" does cause concern. Any efficient business should not operate with a large deficit. Again, this is an area for which I believe I need more experience and information to give a more precise answer.

PURCHASING

Question 1. What role do you believe the Board of Governors should play in the approval and post-review of major purchases and acquisitions of the Postal Service?

The Board of Governors should again be supplying overview and policy direction in regard to major purchases and acquisitions by the Postal Service. The Board of Governors should set policy so that the service contracts are not flawed and there are not substantial increases and costs to the Postal Service, and to the American public.

IV. RELATIONS WITH CONGRESS

Question 1. Do you agree without reservation to respond to any reasonable request or summons to appear and testify before any duly constituted committee of the Congress, if confirmed?

Yes.

Question 2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress, if confirmed?

Yes.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE
GERMAIN E. DESEVE, TO BE CONTROLLER, OFFICE OF FEDERAL FINANCIAL
MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Germain Edward DeSeve
G. Edward DeSeve
2. Position to which nominated:
Controller, Office of Federal Financial Management, Office of Management and Budget
3. Date of nomination: October 7, 1994
4. Address: (List current place of residence and office addresses.)
Residence: 2204 Decatur Place, NW, Washington, DC 20008
Office: Office of the Director, Office of Management and Budget, Room 250, Washington, DC 20503
5. Date and place of birth: September 24, 1945, New York
6. Marital status: (Include maiden name of wife or husband's name.)
Married, Karren A. Purdy
7. Names and ages of children: Germain Edward DeSeve, 23
8. Education: List secondary and higher education institutions, dates attended, degree received and date of degree granted.
1963 Vincentian Institute—High school Diploma
1967 Cornell University—BS in ILR
1972 University of Pennsylvania—MGA
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment if necessary.)
11/94 to Present—Assistant to the Director for Management Initiatives, Office of Management and Budget, Washington, DC
7/93–11/94—Chief Financial Officer, U.S. Department of Housing and Urban Development, Washington, DC
1992–1993—Director, Drexel Partnership Interests—(DPI)—B Corporation, New York, NY
1990–1992—Special Assistant to the Governor, Commonwealth of Pennsylvania, Philadelphia, PA
1985–1993—Senior Lecturer, Fels Center of Government, University of Pennsylvania
1985–1990—President, American Capital Group, Philadelphia, PA
1983–1985—Managing Director, Merrill Lynch Capital Markets, New York, NY
1980–1983—Director of Finance, City of Philadelphia, Philadelphia, PA
1975–1980—President, Public Financial Management Inc., Philadelphia, PA
1974–1975—Deputy Director of Finance for Budget, City of Philadelphia, Philadelphia, PA
1972–1974—Assistant to the Director of Finance, City of Philadelphia, Philadelphia, PA
1971–1972—Deputy Director, Community Renewal Program, City of Philadelphia
Analyst, Community Renewal Program, City of Philadelphia
1969–1971—Deputy Director, Model Cities Program, City of Fresno, Fresno, CA
1968–1969—Volunteer in Service of America (VISTA), Fresno, CA
10. Military Service: List any military service, including dates, rank, and type of discharge.
None
11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.
Delaware River Port Authority
PA State Public School Building Authority
PA Higher Education Facilities Authority
PA Housing Finance Agency

PA State System of Higher Education

12. Previous Appointment: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.

Yes. Chief Financial Officer. Date of Nomination: May 14, 1993,

Date of Confirmation: July 26, 1993, Committee on Banking, Housing and Urban Affairs.

13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

Newbold's/American Capital Group
Public Financial Management, Inc.
Merrill Lynch, Pierce, Fenner and Smith
Buck Hill Falls Company
DPI-B Corp.
United Federation of Teachers
Greater Philadelphia First Corporation

14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Broadhead Protective Association
21st Century League
Schuylkill Center for Environmental Education
Henryville Conservation Club, Inc.
Wilderness Society
Trout Unlimited
Sunday Breakfast Club
Philadelphia Securities Association
Philadelphia School District Surrogate Parent Program
Germantown Cricket Club

15. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Worked on the following campaigns: Clinton for President; Wofford for Senate; Casey for Governor; and Green for Mayor.

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

1993—Friends of Dwight Evans \$750
1993—Florio for Governor \$650
1992—Wofford for Senator \$1,000, 1993—\$1,000
1991—Casey for Governor \$1,000, 1990—\$1,000
1992—Clinton for President \$1,000

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

New York State Regents Scholarship
Adelphi Scholarship, Cornell University
Public Financial Fellowship, University of Pennsylvania

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

A Financial Management Handbook for Mayors and City Managers. Co-Author; and "Financing Urban Economic Development," *The Annals of the American Academy of Political and Social Sciences.*

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

None.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

Confirmation hearing before the Committee on Banking Housing and Urban Affairs—July 12, 1993; U.S. House of Representatives, Committee on Government Operations, Subcommittee on Legislation and National Security, June 23, 1994; and U.S. House of Representatives, Committee on Appropriations, Subcommittee on VA, HUD, and Independent Agencies, April 28, 1994.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

I believe my nomination was based on an evaluation of job requirements and my background and ability.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

Progressively responsible experience at the local, state and Federal levels in public finance, as well as private sector and academic background qualify me for this position.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organization if you are confirmed by the Senate?

Yes.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

None.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and executive of law or public policy.

None.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

N/A

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. FINANCIAL DATA—RETAINED IN COMMITTEE FILES

PREHEARING QUESTIONS FOR G. EDWARD DeSEVE TO BE CONTROLLER
OF THE OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF
MANAGEMENT AND BUDGET

I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

Question 1. Why do you believe the President nominated you to serve as Controller of the Office of Federal Financial Management (OFFM)?

The job of Controller of the Office of Federal Financial Management is one that the Administration views as an essential part of an overall finance and management structure. In filling the position, the Administration was seeking someone with familiarity with Federal financial management issues, a good working relationship with managers in the Federal finance and management community and who had demonstrated experience in dealing with complex financial systems and problems.

Question 2. Why did you choose to accept this appointment, and what particular qualifications will you bring to OFFM?

The challenges of assisting departments and agencies in implementing the objectives of the Chief Financial Officers Act (CFO's Act) and the Government Performance and Results Act (GPRA), as well as the Government Management and Reform Act (GMRA), make the Controller's job a unique challenge.

My education in economics and public finance, my work experience in public finance in the private sector, as well as at the local, State and Federal levels serve as fundamental qualifications. Beyond these, I bring an enthusiasm and willingness to work cooperatively with Congress and within the Executive Branch to implement the many finance and management initiatives now underway in an integrated fashion.

Question 3. Were any conditions, expressed or implied, attached to your nomination to be Controller of OFFM?

No.

Question 4. Have you made any commitments with respect to the policies and programs which you will attempt to implement as Controller? If so, please explain.

The only commitments made were to implement the statutes referenced above and to seek continual dialogue with Congress regarding new initiatives.

Question 5. Are there any issues involving OFFM from which you may have to recuse or disqualify yourself? If so, what system will you establish to carry these out?

No.

II. ROLE AND RESPONSIBILITIES OF THE OFFICE OF FEDERAL FINANCIAL
MANAGEMENT

Please describe what you regard to be your principal achievements as the HUD CFO, and in previous positions. In what ways have your experiences prepared you for the challenges you would face as Controller at OMB?

At HUD, three systemic weaknesses had been identified in numerous reports and discussed in testimony by Secretary Cisneros. They were:

The absence of an overall management and resource allocation system for the Department.

The lack of integrated program and financial systems.

The absence of a system of management control.

The Secretary assigned the resolution of these three systemic weaknesses to the CFO's Office. The work to resolve these three problems represents my most significant accomplishment at HUD.

THE STRATEGIC PERFORMANCE SYSTEM

This initiative was begun in 1993 to tie together the various elements of the Department's management and planning process into a coherent whole.

The first component of this was the Strategic Framework. This Framework pulled together the Clinton Administration's Community Empower-

ment Principles, which informed the Department's Mission Statement and led to the establishment of the Secretary's Priorities.

A Presidential Performance Agreement was signed to establish the specific goals for each program area which serve as the basis for their organizational and customer service plans.

Overall, the Strategic Framework set the direction for the program and policy plans, budgets and the departmental management plan, which integrated the information management, performance and resources management plans of the Department.

The Secretary created the Management Committee to oversee the development and execution of the management plans in each program area. The CFO's Office worked with program offices to develop a system to set specific, measurable performance goals. In FY 94 there were more than 500 goals and more than 80% were fully achieved.

This information is available electronically on-line to various senior level managers throughout the Department in the Secretary's Performance Report, and is being used as the basis for the Department's implementation of GPRA.

SYSTEMS INTEGRATION

In 1993, the systems development and implementation effort at HUD was reorganized to place greater responsibility for costs and meeting schedules in the hands of the program assistant secretaries. Overall coordination of budgets and planning became the responsibility of the Chief Financial Officer.

At that time, more aggressive and more detailed work schedules were put forward, and project priorities and budgets were reviewed. The result of this action was much better implementation of core accounting, Section 8, public housing and community planning systems. In a recent audit of Section 8 budgeting and accounting systems, the HUD Inspector General (IG) found that procedures and systems had been introduced to improve Section 8 estimates. However, the IG cautioned that the CFO would need to continually monitor implementation.

MANAGEMENT CONTROL

A third systemic weakness was the overall management control environment of the Department. Cooperation between the Office of the Inspector General (OIG) and my office produced a new approach called "Balanced Management" which calls for the cumbersome, paper-bound FMFIA process to be replaced with a program management initiated process that was designed into the work processes themselves.

This was a dramatic shift in emphasis from finding out what went wrong after it happened, to seeking to design programs to avoid waste, fraud and abuse in the first place. Extensive training was provided and for FY 95 each program area developed management control plans which assess risk of existing programs and created strategies to minimize the risk.

PRIOR EXPERIENCE

Four instances in my previous career point out my qualifications for the position of Controller:

Director of Finance, City of Philadelphia—As the City's Chief Financial Officer, I was responsible for budgeting, accounting, investment, data processing and procurement.

Among my accomplishments were: Turning a large deficit into the largest surplus in the City's history; installing a new automated financial management and accounting system; and initiating the first outside audit of the City which produced a clean audit opinion in the first year.

President, Public Financial Management—As founder, I built a successful independent financial advisory firm which has grown to be one of the largest and most successful in its field. The firm advises states, authorities and local governments on debt issuance, investment, and financial policy matters.

Senior Lecturer, Fels Center for Government, University of Pennsylvania—For 8 years, I taught the core classes in public finance and in governmental management to more than 200 Masters in Governmental Administration candidates. Many have gone on to careers as senior government officials.

Special Assistant to the Governor, Commonwealth of Pennsylvania—This position involved direct oversight over, among others, the Department of

Public Welfare, the Department of Health, the State System of Higher Education, and the Pennsylvania Housing Finance Agency. Each of these agencies required extensive understanding of the operations of Federal programs such as Medicaid, Public Health Service Programs, AFDC, child care and Section 8 housing.

Question 2. How would you characterize the current condition of Federal financial management?

Since creation of OFFM, the condition of Federal financial management has improved substantially, but has a long way to go. For example, in fiscal year 1990, only five agency financial statements were prepared and only one had a "clean" (unqualified) audit opinion. In fiscal year 1992, there was a substantial increase to 36 clean audit opinions of the agencies' 130 financial statements.

Another measure is the full organizational implementation of the CFO function in all agencies covered by the CFO Act. Additionally, when the Social Security Administration was established, the CFO function was a key organizational element.

Nowhere is the current state of Federal financial management more apparent than in the activities of the CFO Council. The vision statement and goals and strategies, as well as the priorities of the Council are very strong evidence of the current and future directions as agencies internalize the need for better financial management.

Question 3. How would you describe the mission of OFFM?

OFFM, working cooperatively with the agency CFOs, has adopted the following goals, as articulated by the CFO Council: (1) provide leadership to promote the efficient management of government resources and assets, (2) provide quality financial services to customers based on their needs, (3) provide complete and useful financial information on Federal Government operations which fully supports financial and performance reporting, and (4) establish a governmentwide framework to provide sound financial policies and services and to facilitate effective communication. In addition, OFFM will provide independent analysis on IG issues and accomplishments, and work with the IGs to continuously improve the effectiveness of the IG community.

For State and local governments, colleges and universities, and non-profits, OFFM established cost principles, administrative and audit requirements which guide the administration of more than \$200 billion in Federal assistance.

OFFM not only advances these goals, but also meets the needs of the President, Vice President, Congress, OMB, agency heads, agency CFOs and agency IGs. OFFM executes several governmentwide financial management statutes, including the Chief Financial Officers (CFOs) Act, the Inspector General (IG) Act, the Federal Managers' Financial Integrity Act (FMFIA), the Government Performance and Results Act (GPRA), and the recently enacted Government Management Reform Act (GMRA) and the Single Audit Act of 1984.

Question 4. What do you believe are the major challenges facing OFFM, and how do you propose to address them?

The primary challenge is integration of various financial and non-financial management initiatives into a coherent "practical framework" (as noted by the Senators Roth and Glenn in their letter to Comptroller General Bowsher). This includes budgeting—the primary financial planning and management process of the government.

In an era of scarce resources, another major challenge is ensuring sufficient budgetary resources are devoted to financial management initiatives, including financial management system improvements. Additionally, recruiting and training Federal professionals to work on financial management initiatives is crucial to improving Federal financial management.

Question 5. What do you consider to be your basic role and responsibilities as Controller?

The Controller provides leadership to improve Federal financial management. The Controller coordinates policy development efforts throughout the Executive Branch, working cooperatively with the Legislative Branch, and

ensures that policymakers devote priority attention to financial management initiatives throughout the Executive Branch.

Question 6. What objectives would you like to achieve in your tenure as Controller? What is your vision for the direction that Federal financial management will take under your leadership?

The Federal Financial Management Status Report and Five-Year Plan (the Five-Year Plan) provides the ideal vehicle to view the objectives of the Office of Federal Financial Management and to reiterate a vision for Federal financial management throughout the government.

This year's five-year plan will feature the CFO Council's 1995-1996 Priorities (scheduled for approval at their June meeting). Priority areas include:

- Implementation of the Government Performance and Results Act
- Report Streamlining
- Financial Systems
- Electronic Commerce
- Financial Statements and Accounting Standards
- CFO Organization/Human Resources
- Credit Management & Debt Collection

A primary mission of OFFM will be to leverage the work that the Council is doing. Helping them plan and execute specific action programs will be an important part of OFFM's own work program.

The CFO Council's Priorities are in furtherance of its vision statement which says, in part, "We envision an environment where:

Program and financial managers work in partnership, to achieve the full integration of financial (finance, budget, and cost), program, and oversight information and processes.

Financial management policies and practices enhance effectiveness and efficiency of governmental programs; measuring performance is a critical element in making decisions.

Financial management emphasizes customer service based on customer needs.

Integrated financial management systems, with adequate internal review and controls, provide information that is timely, accurate, and analyzed for options in ways that specifically help achieve program objectives. Governmentwide systems are shared among agencies, and accountability is assured."

In addition to implementing the Priorities, OFFM must take a leadership role in those cross-cutting elements that support this vision. Four major elements stand out:

Supporting the first Government-wide audited financial statement—GAO, Treasury, and OMB are actively involved with Departments in producing this landmark document. The statement is spotlighting the need for standards and demonstrating how financial information can flow throughout government on a continuing basis.

Integrating Budgeting and Financial Management—The budget process is the primary financial management process of the Federal Government. However, the lack of relevant and timely financial and performance information has contributed to uninformed decisions at the agency level and throughout the budget formulation, approval and execution process.

The vision for integration sees periodic financial reports being provided frequently to aid in monitoring budget execution and closely tied to frequent updates on performance.

Design of Central Systems for Information Receipt and Transaction Processing—The Governmentwide Audited Financial Statement and need to integrate the budget process point up the need for better central financial systems that receive and record data.

The vision for central systems foresees fewer and fewer stand-alone agency accounting systems and better central data transmissions, receipt and usage.

Reengineering Management Control—Too often the detection of control problems after the fact replaces prevention of problems before the fact as a focus of attention.

In order to focus on prevention, there will be a need to design programs so that their integrity is built in and a part of the ordinary execution of work processes. This will involve a creative partnership of program man-

agers, inspectors general, CFOs, and legislative representatives, including the General Accounting Office, agreeing on risk tolerance and procedures.

Question 7. How do you envision your relationship and the nature of your responsibilities as they relate to:

- The President
- Congress
- The Director of OMB
- The Deputy Director for Management
- The Deputy Director
- Department/Agency CFOs

OFFM supports each of these officials in carrying out their responsibilities for financial management policy development and implementation. Within OMB, the Director, the Deputy Director, the Deputy Director for Management (DDM) and the Controller operate as a team. Combined and coordinated leadership of strong individuals with varied experience can only make OMB more effective. With respect to department and agency CFOs, I will provide leadership to the CFO Council and work cooperatively with both the Council and these officials individually.

I hope to continue periodic routine consultation formally and informally with Congressional committees. The CFO Council's Legislative Affairs Committee has been organized to provide a vehicle for this consultation. I also will continue the cooperative arrangement with the GAO in the context of FASAB and JFMIP, as well as in the implementation of various management initiatives.

III. OFFM POLICY AND MANAGEMENT ISSUES GENERAL ISSUES

Question 1. What will be the role of OFFM in relation to the new RMOs established by the OMB 2000 reorganization? What role will you play in integrating financial management concerns into the RMOs, and what leverage will you have in ensuring that those concerns are acted upon?

OFFM's relationship with the RMOs will help the program examiners ensure that agencies properly implement and carry out the financial management policies, required by the CFOs Act, GMRA, and the other financial management statutes, as developed by OFFM. This entails training the RMO staffs, working jointly with them to institute needed improvements in the agencies, involving RMO staff when OFFM works directly with an agency, and providing the RMOs with the tools to monitor implementation of financial policies. Since the OMB 2000 reorganization, the RMOs have been working cooperatively with OFFM, including joint efforts to assist agencies in implementing credit reform and other financial management policies and improving financial management systems.

Question 2. In considering the impact of OMB 2000 on shifting resources, how will you maintain the statutory responsibilities required of OFFM? Are there statutory responsibilities that OFFM will be unable to implement because of OMB 2000's resource shifts?

OFFM will leverage resources both throughout OMB, especially in the RMOs, and in the agencies particularly using the CFO Council and the PCIE. The OMB 2000 restructuring is improving the effectiveness of OFFM by the direct working relationship established with the RMOs. RMO staff now have a better understanding of financial management in their agencies and, thus, OMB is more effective in obtaining improvements. There are no statutory responsibilities that OFFM will be unable to implement because of OMB 2000.

Question 3. A frequently-voiced concern over the CFOs Act is whether OMB has the needed staff resources to effectively carry out the responsibilities and major reforms called for in the Act. What is your understanding as to the staff resources to be available for OFFM, post OMB 2000? Do you believe that the staff resources will be sufficient? What impact will the passage of the Government Management Reform Act of 1994, with its requirement for expanded agency financial audit coverage, have on OFFM resources?

Including the Controller, OFFM currently has authorization for 17 professionals and three support staff. In addition, OMB 2000 has allowed OFFM to expand its use of RMO staff in task forces to define policies and guidance materials. Therefore, I believe the OFFM staff resources are sufficient to

guide implementation of both the CFOs Act and the Government Management Reform Act.

As noted above, the leverage of agency staff through the CFO Council will allow OFFM to carry out its responsibilities by providing guidance and support.

AGENCY CFOs

Question 1. Agency CFOs are critical to achieving the objectives of the CFOs Act. In the last administration, however, some agency CFO positions were never filled, some were filled with individuals with little or no financial management experience, and some were assigned as secondary responsibilities to officials with other duties, such as personnel, administration, or procurement.

a. What are your views on whether agency CFOs should have multiple or singular responsibilities? How will you ensure that financial issues are given the proper attention in agencies where CFOs have multiple responsibilities?

The merits of whether an agency CFO should have multiple or singular responsibilities should be considered on a case-by-case basis. However, generally, I believe that the CFO should have a significant voice within the agency to ensure that decisionmaking is fully informed and that financial management improvements can be accomplished within a reasonable time-frame. In some agencies, this will require that the CFO have multiple responsibilities; in others, it can be accomplished within a singular set of responsibilities. Each agency head is responsible for ensuring that the CFO is able to fulfill the CFOs Act requirements to better manage Federal resources, produce information that is accurate and timely, and assist policymakers in arriving at better decisions.

I am aware of the keen interest in this subject both by the Congress and the agency CFOs. To address some of the organizational issues, the CFO Council has initiated its own review of agency CFO organizational structures. The results will be forwarded to OMB to determine whether any changes are needed to OMB guidance on CFO organization structures. I look forward to the CFO Council's advice.

b. OMB has been criticized for neglecting CFO organizational issues within the agencies. What will be your procedures for reviewing agency structures, and under what circumstances will you reject agency plans?

OMB issues guidance on CFO organizations and responsibilities, consults with the agencies as organizational proposals are developed, reviews proposals that are submitted by agency heads, resolves any questions or concerns that may arise, and then approves agency CFO organizations.

OMB fulfills these responsibilities through the actions of the DDM, OFFM, and the RMOs. Currently, OMB staff are working on two reorganization proposals. The Secretary of Labor has submitted a reorganization proposal to OMB; OFFM and RMO staff are reviewing it. Approval is expected shortly. The Federal Emergency Management Agency (FEMA) is considering a reorganization, and OMB staff are working informally with FEMA staff on the changes that may be proposed by the FEMA Administrator.

Question 2. What role do you anticipate that you personally will have in the selection of agency CFOs?

The CFOs Act mandates a role for the Controller, through the DDM, to advise agency heads with respect to the selection of agency CFOs and Deputy CFOs. If confirmed, I expect that I will provide such advice. I will work with White House Personnel to identify qualified candidates for PAS level CFO positions, and with agency CFOs on recruitment and selection of Deputy CFOs.

Question 3. How will OMB monitor and review the performance of agency CFOs, and what would you perceive your role to be in that process?

OMB regularly engages the agency CFOs in a variety of ways that permit us to assess financial management performance. There are formal and informal ways to obtain information. For example, OFFM, in concert with the RMOs, conducts financial systems review hearings each fall with the agency CFO. Additionally, the Federal Financial Management Status Report and 5-Year Plan includes what we refer to as the "indicators table." This

table (found on page 45 of the August 1994 report) documents the status of agency progress towards meeting critical financial goals in four areas: audited financial reporting, asset management, management integrity, and financial systems.

Further, the Controller is a member of the CFO Council. This forum affords the opportunity to gain information on agency progress and obstacles, and to provide the leadership that is needed to achieve short and longer-term financial management goals.

Last, on a regular basis, the Controller and other OMB staff (both policy and career) engage agency CFOs and others to address financial management needs. Agency CFOs and Deputy CFOs have a continuing relationship with OMB that will continue and be strengthened in the years ahead.

HUD CFO OPERATIONS

Question 1. In HUD's 1993 FMFIA report, the IG identified the HUD CFO's management control program as a material weakness, for its failure to complete management control reviews and its failure to address HUD's system weaknesses. The 1994 FMFIA report shows this program as being corrected by a new program, called "balanced management".

The Inspector General's (OIG's) January 1993 audit of the FMFIA program disclosed that HUD had failed to fully implement the FMFIA program, using the processes that were specifically described in OMB Circular A-123.

Working with the OIG following this audit, it was determined that implementing a process-laden FMFIA program that was viewed as burdensome and of no value to managers simply made no sense. These are the very same FMFIA processes that would later be described as process-ridden and wasteful in the NPR's September 1993 Accompanying Report on Streamlining Management Controls. These will no longer be required in the revised OMB Circular A-123, due to be issued this summer. Clearly, what was needed was a new approach, something pro-active based on problem prevention and risk abatement, not problem detection.

a. When was the management control program abolished?

The management control program was replaced by the Management Planning and Control Program on March 31, 1994.

When did balanced management begin to function?

Balanced Management began to function in August 1994, just after training was provided to about 350 of HUD's Field and Headquarters program and financial managers.

b. What is this new program?

From August 1993 through March 1994 my staff and the Inspector General's conducted a joint management control reinvention laboratory. The laboratory concluded on March 16, 1994 and resulted in the Management Planning and Control Program (MPCP).

The MPCP was announced on March 31, 1994 as an integrated component of the Department's Strategic Performance System. The MPCP kept the best parts of the old Management Control Program and also incorporated risk abatement strategies into the annual management planning process. The MPCP is characterized as problem preventative/risk abatement based rather than as a laborious after-the-fact problem detection system.

Balanced Management is not HUD's management control program, it is new management philosophy that emphasizes the need to achieve performance while maintaining financial integrity. It is a "balanced" philosophy designed to simultaneously meet the needs of the Government Performance and Results Act and FMFIA and is a major component of HUD's MPCP. A similar approach is reflected in the new OMB draft of Circular A-123.

And how did it correct the problems of the former program within one year?

The original material weakness cited by the OIG was that HUD did not have a valid FMFIA process in place. By working with the OIG and developing the MPCP and the Balanced Management concept, we ended the Fiscal Year with a reinvented FMFIA process in place. That is, one which is

an integral part of HUD's Strategic Performance System and supported by the balanced management philosophy.

Does the OIG concur that this weakness is closed?

In order for a material weakness to be closed at HUD, a verification review must be performed either by the OIG or an independent contractor. Since the OIG helped reinvent the FMFIA program, they felt it would be better to have the verification review performed by an independent auditing firm. The verification is being done as part of the Fiscal Year 1994 consolidated audit of the Department.

c. How many balanced management program reviews have been conducted and how many reports issued?

Historically internal control reviews at HUD proved to be of very limited value. Under the new MPCP, internal control reviews are performed at the discretion of program managers.

HUD management is trying to take a proactive stance and prevent material weaknesses from occurring rather than conducting internal control reviews and issuing process scrutinizing reports of little value.

How well is it being implemented by program offices?

The new MPCP is being implemented by the program offices. It is my understanding that all the major program offices now have their Fiscal Year 1995 management control plans in place, with risk abatement strategies that are coupled to their management plans. The combined management plan and management control plans are being tracked in the quarterly Secretary's Performance Report.

Has it identified any new weaknesses?

The new MPCP is designed to prevent or to abate both potential and known material weaknesses, not (re)detect already known problems through paperwork reviews. The vast majority of HUD's material weaknesses or major deficiencies were identified through the OIG audit process, with management's concurrence. This system is still in place. The OIG also maintains their own Top Ten management deficiencies list which overarches a number of existing material weaknesses. In addition, GAO and OMB have both identified and continue to track the correction of several high risk areas.

How many new significant or material weaknesses were identified in each of the past four years by the CFO's Office?

The final decision to declare a problem a material weakness is made by HUD's Management Control Committee, not the CFO alone. The Management Control Committee consists of the Inspector General, the Chief Financial Officer, the Deputy Secretary and an ad hoc member representing the programmatic functional area. Potential material weaknesses may be brought to the Management Committee's attention by any interested party. Historically, most potential material weaknesses have been identified through OIG audits.

| Fiscal Year | No. of New Material Weaknesses Declared | No. of Existing Material Weaknesses Completed Pending Verification Review |
|-------------|---|---|
| 1991 | 11 | 29 |
| 1992 | 4 | 28 |
| 1993 | 9 | 17 |
| 1994 | 0 | 7 |

Question 2. HUD's Financial Management Information Systems have long been considered a serious material weakness. The completion date for fixing this problem has slipped repeatedly, and is now targeted for 1998. What has the CFO's office done to address this problem, and why is its solution taking so long?

HUD developed its initial Financial Management Systems Integration Plan in 1991 to address the serious material weakness with its financial systems. This plan was submitted to the Office of Management and Budget (OMB) on November 15, 1991 and subsequently approved by them. The initial Plan called for the development of nine (9) integrated systems, based

upon HUD's business activities, with a projected final completion date of September 1997.

Dynamic Nature of the Plan

In 1993, Secretary Cisneros charged the Deputy Secretary with the mission of reviewing HUD's Financial Management Systems Integration Plan and implementing changes to the Plan to correct the deficiencies with the financial systems. The Secretary established the Systems Integration Steering Committee to oversee the review of the Plan and approve changes that would meet the Secretary's goals. The Deputy Secretary established the Systems Integration Working Group to serve as the coordinating body for systems integration activities.

This Working Group was led by myself as the Chief Financial Officer (CFO), who had responsibility for updating the plan and managing its implementation. Under the CFO's leadership, the Steering Committee reviewed the existing Plan and developed a revised plan that considered the programmatic differences of each program office in accordance with the requirements defined in OMB Circular A-127 (i.e., each agency shall establish and maintain a single, integrated financial management system).

Each program Assistant Secretary was empowered to revise their financial systems plans to meet their unique business requirements. In August 1993, the Steering Committee approved the revised changes to the Plan and the individual project plans developed by the program Assistant Secretaries. Current projections call for completion of the integration projects in 1998.

During my term as HUD's CFO, my staff was responsible for the day-to-day management of the Financial Systems Integration Plans. These responsibilities included: developing Financial Systems Integration Standards (completed in November 1993) and a Uniform Account Coding Structure; reviewing the program office workplans and budgets for consistency with the overall departmental goals; coordinating activities among project teams; conducting "tollgate meetings" with each project team; reviewing project status reports; overseeing resolution of significant issues; and serving as chair of the Systems Integration Working Group.

Accomplishments

Accomplishments to date include implementation of the agency accounting system to support the administrative accounting functions, implementation and roll-out of the Section 8 system to support the tenant-based assisted housing programs, nationwide implementation of Tenant Rental Assistance Certification System (TRACS) software to support the collection of tenant and contract data for the project-based assisted housing programs, nationwide roll-out of software to grantees to support the implementation of the Consolidated Plan for four entitlement programs, utilization of system data to support the Section 8 budget estimates, and the development of Information Strategy Plans to document the informational requirements in all program offices.

In 1995 and 1996 HUD will implement its agency accounting system for all program activities and replace its existing central accounting systems. This new accounting system, currently supporting HUD's administrative accounting functions, will be integrated with the program "mixed" systems to improve operating efficiencies and controls. During this time frame, HUD will eliminate three of its existing accounting systems. In the out-years, the CFO's Office will replace or upgrade sixteen of its accounting support systems. Program Offices are making similar decisions regarding their existing program systems.

The weaknesses in HUD's financial systems are significant. There are approximately 100 financial systems which need to be reviewed and evaluated to determine if they should be reengineered or replaced. The Department must ensure that functionality provided by each system is supported as new systems are developed and implemented. As the Department is reengineering and/or replacing all of its financial and program systems, it must closely coordinate the activities of its eight project teams to ensure that the systems are integrated and work together.

HUD continues to make progress in improving its financial systems. The foundation developed during the past two years has enabled the Department to begin to see the benefits of its efforts as it reengineers its business practices, improves controls, improves accuracy of budget forecasts, improves the accuracy and timeliness of its information, and provides quality service to its clients.

It is anticipated that as the Department's reinvention plans are finalized, the Financial Management Systems Integration Plan will be updated to ensure consistency between the business plan and the systems plan.

Question 3. In 1994, how many times did the CFO office use independent auditors to conduct reviews to verify whether program weaknesses certified by HUD as corrected had actually been corrected? In what percentage of those cases did these auditors find that the program offices had failed to correct material weaknesses after certifying that corrective action had been completed? What actions were taken regarding reopened cases? Are these cases acknowledged in HUD's FMFIA reports? How serious is this problem of material weaknesses being improperly certified as corrected?

During Fiscal Year 1994, 10 verification reviews of material weaknesses were conducted by independent contractors. Only one of these reviews resulted in the reopening of the material weakness. The reopening of this material weakness resulted in the identification of two additional actions to be taken by the program office. The new estimated date of completion is 12/31/95.

Prior to publication of its Fiscal Year 1994 FMFIA Report, the Department reopened one other material weakness based on a draft verification review report dated September 29, 1994. This weakness is being discussed with program officials to ascertain the extent of materiality of the problem. Program officials have been given 30 days to submit a revised corrective action plan.

Both of these weaknesses were identified as reopened in the Department's Fiscal Year 1994 FMFIA Report.

As evident from the above, the reopening of material weaknesses is not a common occurrence. It is the Department's practice to identify material weaknesses which management has deemed corrected as "completed" in the FMFIA report. Then, as a departmental practice, these "completed" weaknesses are then verified by either the OIG or an independent contractor.

AGENCY AUDITED FINANCIAL STATEMENTS

Question 1. The requirement to prepare and audit financial statements is central to accurately disclosing the condition of Federal financial operations.

a. Please describe your experience with audited financial statements, commenting on the difficulties encountered, costs incurred, and benefits derived from the process.

In November 1993, OMB reported to Congress on the benefits, accuracy, difficulties, and costs associated with Federal agencies' audited financial statements. This report, based on reports prepared by the CFO Council and the President's Council on Integrity and Efficiency (PCIE) and on OMB's analysis of agency efforts, concluded that audited financial statements are bringing about marked improvements in the timeliness and accuracy of financial information used for evaluation and decisionmaking. The report also concluded that the preparation and audit process is uncovering material system deficiencies, stimulating the strengthening of internal controls, fostering improvements in financial information systems, and fostering measures of program performance.

Preparing and auditing financial statements has been a new experience for Federal personnel. Like most new experiences, it has not been without difficulty. The PCIE reported poor financial management systems as the number one difficulty in the conduct of audits of financial statements.

The cost of auditing agency financial statements was estimated at \$103 million for FY 1995 and \$122 million for FY 1996. These estimates do not take into consideration savings resulting from the elimination of audits that are no longer necessary in light of financial statements audits. The costs should begin to decline as the agency's financial management systems and data quality improve, the auditors obtain an understanding of the agencies' systems, operations, and internal control structures, agencies correct chronic serious internal control problems, and all participants gain experience.

b. What has been the benefit to date of audited financial statements in the Federal Government? What do you see as the principal impediments to achieving the benefits of audited financial statements in the next few years?

As indicated above, OMB's November 1993 report to Congress concluded that audited financial statements are bringing about marked improvements in the timeliness and accuracy of financial information used for evaluation and decisionmaking.

In the private sector, financial statements provide information critical to investor and creditor evaluation of the overall strength of an organization's operations and financial health as well as information critical to management for evaluating performance. Similarly, Federal agency financial statements serve the needs of management, Congress, and the general public.

Financial statements should provide information about an agency's or program's: (1) operating performance, including its service efforts, costs, and accomplishments; (2) budgetary integrity to ensure an agency or program used its resources in accordance with spending authorities; (3) stewardship to assess whether the agency's or program's financial position improved or deteriorated; and, (4) systems and controls to reflect the integrity of financial operations. These objectives will not be accomplished solely through the production of reliable financial data; however, they cannot be accomplished without reliable financial data.

As noted above, the PCIE reported that poor financial management systems are the primary impediment to the conduct of financial statement audits. The requirement to prepare financial statements and have them audited annually motivates management to develop systems and procedures that reasonably ensure the quality of financial information and operations and in turn provides a strengthened mechanism for preventing fraud, waste and abuse and improved management resources. For those agencies having difficulty complying, OFFM and RMO staff will work closely with agency staff to identify impediments to effective implementation of the Act, develop mutually agreeable solutions, and prepare an action plan for removing the impediments. OFFM will assist the RMOs in monitoring the agencies' progress in implementing action plans as well as with hands-on technical assistance, where necessary.

Question 2. The CFO Act provides that the Director of OMB shall prescribe the form and content of agency financial statements.

a. In general, what do you believe the Director of OMB should try to accomplish in prescribing the form and content of agency financial statements?

The Director should prescribe form and content that incorporates the disclosure requirements of generally accepted accounting principles for Federal agencies and provides useful information for Executive Branch officials, the Congress and the public. The prescribed form and content should assure uniformity and, where applicable, comparability. OMB guidance on form and content should ensure that agency financial statements provide (a) a clear understanding of the financial operations and financial condition of the programs and activities covered by the statements, and (b) information with which to judge the program's strengths and weaknesses in terms of indicators of program performance.

b. How much discretion should agencies have to adapt financial statements to the needs and interests of their principal users?

OMB's form and content guidance provides a framework within which individual agencies have the flexibility to develop financial statements that provide information useful to the Congress, Federal managers, and the public. The formats and instructions provide guidance for meeting the minimum disclosure requirements required by generally accepted accounting principles for Federal agencies. Within the framework provided by OMB's form and content guidance, each agency has ample discretion to adapt the information in its financial statements to meet the needs and interests of its principal users.

c. The National Performance Review has criticized the slow process of setting Federal financial standards at FASAB. How will OMB, as a principal of the group, work to improve the process?

The establishment of accounting standards is a key element in the Federal Government's program to improve Federal financial management, as contemplated by the CFOs Act. Accounting standards are vital to effective management and accountability in the Federal Government. I fully support the FASAB standard setting process and believe that the current standards setting effort will result in a comprehensive set of accounting standards with which Federal agencies and entities can report their financial position and results of operations in a meaningful and uniform manner.

Many of the features that provide value and strength to FASAB—its comprehensive scope, diversity of board members, due process, full deliberation of issues, its focus on financial statement users' needs—are critically important to gain general acceptance for the standards. This complexity makes the standards setting process time consuming. These factors are also evident in the private sector and State and local government standards setting processes. Nevertheless, FASAB has made significant progress.

Four statements have been issued to date: (1) Concepts Statement Number 1, "Objectives of Federal Financial Reporting;" (2) Accounting Statement Number 1, "Accounting for Selected Assets and Liabilities;" (3) Accounting Statement Number 2, "Accounting for Direct Loans and Loan Guarantees;" and, (4) Accounting Statement Number 3, "Accounting for Inventory and Related Assets."

In the coming months, FASAB will complete six more projects including: (1) Entity and Display; (2) Managerial Cost Accounting; (3) Liabilities; (4) Plant, Property, and Equipment; (5) Revenue Recognition; and, (6) Stewardship Reporting.

I will work closely with OMB's representative to FASAB to ensure that these projects are completed shortly, as recommended by the NPR, and that sufficient OMB resources are committed to the process.

d. What can financial statements and other financial management information provide that will improve the public's understanding of government operations, as well as the government's accountability to the public? What are your views on making such financial information more readily available?

Financial statements can improve the public's understanding of government operations by disclosing the full cost of specific programs and activities and the composition of and changes in these costs over time. Financial statements provide information about the costs the Federal Government can expect to incur as a result of its continuing activities and provide information about the extent to which future generations will have to provide resources to fund current and past policy decisions.

With respect to making such information readily available, I believe one of the fundamental responsibilities of public officials is to keep the public fully informed about their government's activities. Financial statements are a primary means of meeting this responsibility. I would encourage agency heads to move aggressively to issue audited financial statements promptly after year-end. Agencies should inform the public of the availability of their audited financial statements and take steps to ensure wide distribution of them.

Question 3. Regarding OMB's responsibilities with respect to financial audits of Federal agencies:

a. What steps should OMB take with respect to adverse financial audit findings?

While primary responsibility for correction of audit findings resides with the agencies, OMB clearly has an oversight responsibility in this area. I believe that OMB needs to do more to ensure that agency follow-up systems are actually fixing problems and detecting problems before they occur (as opposed to simply processing paper). The annual audit process imposed by the CFOs Act requires auditors to report internal control weaknesses and compliance problems, including the status of uncorrected findings from prior years. This audit reporting process provides a means for OMB to monitor an agency's progress in correcting deficiencies. OMB's RMOs will be actively involved in monitoring agency progress as well as in addressing the resource requirements to solve these problems.

To increase awareness of these problems, OFFM publishes a summary of the more critical audit findings of each agency in OMB's annual Financial Management Status Report and Five-Year Plan. Also included in this document is a financial management performance indicators chart which presents the number of material weaknesses in internal accounting controls reported by the auditors. This public exposure is increasing the pressure on agencies to resolve adverse audit findings. I intend to continue these reporting efforts.

b. How will you bring agencies not currently fulfilling the CFOs Act's mandates into full compliance?

I believe the success already achieved in implementing the audited financial statement provisions of the CFOs Act has been remarkable, given the previous condition of agency accounting systems and the lack of experience in preparing and auditing financial statements. For those agencies having difficulty complying, I would rely on staff from OFFM and the RMOs to work closely with agency staff to identify impediments to effective implementation of the Act, develop mutually agreeable solutions, and prepare an action plan for removing the impediments. OFFM will assist the RMOs in monitoring the agencies progress in implementing action plans as well as with hands-on technical assistance, where necessary.

c. What role should OMB play in solving agency-specific financial management problems, such as Pentagon unmatched disbursements, IRS duplicate payments, etc?

I think OMB should play an active role in assisting agencies in resolving financial management problems. With the agency-specific expertise of OMB's RMOs, coupled with the technical assistance that OFFM can provide, I believe that OMB will be better equipped than in the past to work with agencies to address these problems.

Question 4. One of the biggest impediments to the CFOs Act implementation may be the lack of financial management training in the agencies. What will you do to help agencies improve in this area?

This is an area of considerable interest to me. OFFM has and will continue to conduct training on financial management through such organizations as the JFMIP, the AGA and Treasury Financial Management Service (FMS). In addition, the Human Resources Committee of the CFO Council is developing a new financial management education and training program for CFO/Comptroller organizations. The effort is well underway and concentrates on: better defining the core competencies needed for financial management staffs, outlining the professional training available or in need of development to meet the core competencies, and establishing competency-based certification. OFFM is assisting the Committee in this effort, and, if confirmed, I will devote special attention to assuring that appropriately designed career planning and instructional systems are a priority in Federal financial management.

Question 5. Financial statements are to be audited by agency IGs or by an independent external auditor, as determined by the IG. The Committee on Governmental Affairs, as the authorizing committees for the Inspectors General, is interested in expanding the capabilities and effectiveness of the IG community.

a. What steps will you take to ensure that the IGs have sufficient resources to carry out their CFOs Act responsibilities?

Within their Congressional appropriations levels, the IGs must determine the most appropriate audit and investigative program for their agency. In this era of decreasing budgets throughout the Federal Government, the IGs' budgets are not going to become significantly larger across the board. There are a number of things OFFM could do to help the IGs make appropriate, effective decisions about what audits to perform within their spending limits. In my mind, that certainly includes aggressive implementation of the audits to be performed under the CFOs Act. OFFM must continue to work with the IGs as they find ways to (1) use the financial statement audits to assess internal controls related to an agency's programs and activities, and (2) use this information to target their resources on the agency's greatest vulnerabilities. The audits of financial statements, in addition to their other benefits, provide a useful map for how to effectively target IG resources. Performing audits of financial statements can help the IGs spend each of their budget dollars more effectively.

The Controller of OFFM is a member of both the CFO Council and the two IG councils. If confirmed, I would work with the IGs and the CFOs to ensure they understand that crucial financial and program improvements result from the preparation and audit of financial statements.

b. Will you expand the peer review function that examines IG financial audits?

The Audit Committee of the President's Council on Integrity and Efficiency (PCIE), the council of the presidentially-appointed IGs, is beginning a project to examine the IG peer review process and to determine if any

changes should be made to the PCIE guides for conducting peer reviews. One of the issues the PCIE will focus on is how best to facilitate peer reviews of financial audits. This will be a particular challenge to the OIGs since, in many cases, financial audits have been a new emphasis.

If confirmed, I would encourage the IGs to consult broadly on this topic and to request advice from GAO and/or public accounting firms that have performed peer reviews of financial audits. I would also be happy to lend OFFM staff expertise to the IGs' work in this area.

c. Under what circumstances should an IG have audits performed by an external auditor rather than developing that capability within the agency's IG Office?

Ultimately, the audits of financial statements are best done by the OIG. Performing this work in house increases the OIG's ability to use the financial statement audits to identify management and program problems that expose the agency to risk of fraud, abuse or program failure. Once identified, these risk areas can become the focus of an investigative or programmatic audit effort.

Having said that, however, I support the use of external auditors in certain circumstances because they can be a valuable technical resource as IGs develop financial audit skills.

CPA firms can be used to "jump start" an OIG's financial audit capabilities. Audits of financial statements are still a relatively new area to many of the OIGs—and with the passage of the GMRA and its requirement for a governmentwide audited financial statement—the OIGs' responsibilities in this area continue to grow.

CPA firms can provide important training and experience for the OIGs. For instance, I might even encourage an OIG to use external auditors for the first few years of performing CFOs Act audits and then phase out the external auditors as the IG's own staff gain experience from working alongside CPA firm auditors. The use of CPAs to work side-by-side with OIG personnel can significantly accelerate the OIG's learning process, minimize fees paid to CPAs, and assist in ensuring the production of useful, timely financial statement audits.

In situations where the IG does not have sufficient staff resources (either in terms of quantity or qualifications) to perform all of the financial statement audits required under the CFOs Act, I believe it is appropriate to contract with external auditors to perform this work.

Another appropriate use of CPA firms is in the establishment and execution of an internal-audit quality control system for financial statement audits. Most CPA firms have had internal quality control systems for financial statement audits for many years, some long before the requirement in GAO's auditing standards.

Let me end this discussion, however, by reemphasizing the importance of the OIGs' direct role in CFOs audits. In every agency subject to the CFOs Act, the IG office should now have, at a minimum, supervisory personnel experienced in conducting and overseeing financial audits. And, in all instances in which a CPA firm is used, IG personnel should work directly with these auditors to obtain on-the-job training and practical experience in performing financial audits.

d. In your opinion, do agency IGs have the capability to sufficiently test contractor work to assure its quality is acceptable?

The early results on this have been mixed—some OIGs proved to have resident supervisory personnel capable of performing qualitative assessments of contractor work and others did not. As the OIGs develop greater experience with financial statement audits, the ability to oversee these audits should become more uniformly high. An enhanced peer review process, as discussed under (b) above, will help identify those IG offices that need more experience to properly review and assess the quality of contractor work.

e. What are your views on the relationship between agency CFOs and IGs? What kind of working relationship do you envision as being necessary to the full implementation of the CFOs Act?

I have some personal experience in this area. As CFO of HUD, I worked closely with the HUD IG, Susan Gaffney. The IG and CFO have a common financial management goal—to see to it that the financial controls and information systems of the department provide an accurate picture of the de-

partment's financial situation, enable the department to cost out its various activities, and protect Federal dollars from misappropriation. The CFO and the IG must work cooperatively toward this common goal. Such a relationship is crucial to successful implementation of the CFOs Act and to the overall financial management of the agency.

This is why I am especially glad to see the CFO Council and the IG councils begin to coordinate on more projects. The councils are currently planning a session that will cover most of the issues—from performance measures to improvements to financial systems—on which the IGs and CFOs must coordinate.

I look forward to that discussion and, should I be confirmed, to working with the councils to continuously improve CFO-IG relationships.

USERS OF AGENCY FINANCIAL INFORMATION

Question 1. In what ways could the Federal budget and appropriations process be improved by the financial information and management reforms of the CFOs Act? What steps should OMB take to ensure that agency financial information is used in agency budget formulation, OMB budget review, and congressional appropriations?

The CFOs Act and subsequent work performed by OFFM and others have helped to pull together the disciplines of budget, financial accounting, information resource management, program management, and procurement so that they work in concert to improve government operations. The Federal Government needs timely, accurate, and consistently structured information on budget, program, and financial results. Also, existing central accounting and agency systems for collecting this information, and making it available for decisionmaking and for budget control, need continued improvement. This has already begun as a result of the focus on the audits of agency financial statements under the CFOs Act and the requirement to produce the audited governmentwide financial statement under GMRA.

Audited financial statements can play a significant role in budget execution, and changes in their form and content have been designed to improve the usefulness of the information. Also, program performance information included in the statements will be used to evaluate the agencies' activities. There are additional financial statement disclosures under consideration by FASAB that will further improve the usefulness of financial reports, such as the proposed Statement of Budgetary Resources. The major advantage of these statements to the budget process is the fact that they will undergo a formal, independent audit which will assist in verifying the accuracy and integrity of information produced by the agency.

OMB has recently started working on a concept called "budgeting for accountability." Its aim is to integrate budgeting, financial accounting, and performance measurement. Budget plans should reflect agency missions and objectives. Budget account structures should allow for the accumulation of cost and performance information to enable managers to be held accountable for execution of their budgets. I think this is an exciting project which will help make the CFOs Act requirements for integration of budgetary and financial information really meaningful, but OMB will need Congress' assistance to make it happen and to incorporate it into the congressional appropriations process.

Question 2. For some time, this Committee has been requesting that the Federal Government streamline its hundreds of financial management systems, and the Committee has been told repeatedly that streamlining was being done. In 1987, the Committee was informed that, by 1992, the Federal Government would have only 26 such systems—yet hundreds remain. (OMB's own figures indicate that just 30 percent of those systems meet common business and accounting standards.) Please describe your understanding of the status of financial systems reform, and any ideas you have for improving those systems.

In the March 22, 1995, report on Federal Government financial management systems provided to the House Committee on Appropriations, OMB reported that the 23 CFOs Act agencies have 816 financial management systems covering a wide variety of functions. This report showed that agencies are working actively to address inadequacies in their financial management systems and new projects are moving toward full compliance with applicable policies and standards, but continued attention and resources need to be devoted to operating and improving financial management systems.

I understand that this number of 816 systems is inconsistent with the projection of 26 systems for several reasons, so we are actually in better shape than it looks, although there is still significant work to do. With the establishment of OFFM by the CFOs Act, guidance to the agencies on how to count and report systems was revised to request more detail and to include more systems under the umbrella of "financial management systems," thus raising the number significantly. The 26 systems represent only "primary accounting systems," a term OMB is no longer using. Instead, the terms "financial systems" and "mixed systems" are being used to reflect encouragement to CFOs to look beyond the traditional accounting systems and to get involved with all systems having financial management implications for their agencies. In addition, some systems used by multiple agencies have been counted more than once in the statistics to reflect the support they are providing to each agency.

Although OMB and the agencies are continuing to work to reduce the number of systems through a variety of initiatives and have been successful in doing so, I don't believe that simply looking at this number adequately addresses our financial management systems issues. Improved standardization of data and processes, increased sharing of data and systems between agencies, integration of program and financial management systems, and development of more streamlined reporting procedures for governmentwide information are key to improving financial management systems, perhaps more so than merely reducing the number of systems. If confirmed, I plan to support work in all of these areas.

FEDERAL ACCOUNTING STANDARDS

Question 1. To what extent has it been helpful to use private sector accounting standards for the Federal Government?

From 1950 to 1990, standards very similar to those used in the private sector were required for the Federal Government. Some agencies tried to implement them, but made little headway. The principal reason was that these standards are not suitable for describing what the Federal Government does, and do not answer the questions of interest to potential readers of Federal financial reports.

The Federal Government is a unique and highly complex entity. It receives most of its revenue from the sovereign power to tax; its expenses are incurred providing services to constituents; and it has no single "bottom line" but a myriad of performance measures, often not measured in dollars. Private sector accounting standards were not intended to communicate the various types of information that users of Federal financial reports need.

The private sector accounting model, which focuses on net profit and net worth, has been helpful in evaluating Federal programs that are, by their very nature, commercial activities or functions. For example, GSA provides a commercial function and the private sector model has been effective in evaluating the results of its operations and financial condition of the agency. For non-commercial Federal activities, the private sector model has not served users very well.

Where possible, please provide examples from Federal financial audits in answering the following:

a. In your opinion, should Federal property that does not yield economic benefits (monuments, for example, or service facilities) be considered assets? Should the cost of such property be capitalized and, if so, what discount rate might be used for it?

I believe that property owned by the Federal Government is an asset of the Federal Government even if that property does not yield future economic benefits. As such, the Federal Government has a responsibility or obligation to account for, maintain, and safeguard it. Although I consider these items to be assets, I do not necessarily believe that such property should be capitalized (or reported as assets) on a traditional balance sheet and depreciated over time. Capitalizing the cost of the Washington Monument, for instance, and then depreciating the cost over future years does not provide meaningful information to users of Federal financial statements. This is a situation in which the private sector accounting model does not serve the Federal Government well.

FASAB is currently developing accounting and reporting standards for Federal property whereby certain types of assets used too provide general

government goods and services (e.g., office buildings, computers, automobiles) would be capitalized on the balance sheet and certain types of other Federal property (e.g., monuments, national forests) would be reported in a new manner—through a stewardship report. A stewardship report would include more meaningful information about these types of Federal assets than is currently provided in traditional financial statements, such as the quantity and condition of the asset rather than its dollar value. I concur with FASAB's proposals in this area and will work closely with the Board as it develops these standards.

b. How should property without historical costs (public domain land, for example) be valued?

The Federal Government owns an extensive number of assets for which the historical cost is unknown. Federal agencies must properly account for the actual cost of future property acquired with Federal funds in accordance with the standards recommended by FASAB and approved by OMB. However, OMB does not intend for agencies to invest a substantial amount of time and money trying to determine the historical cost of assets acquired in the past. For assets presented on the balance sheet, OMB intends to develop guidance for agencies to follow in determining values including estimation techniques. For assets presented on stewardship reports, such as public domain land, no monetary value would be assigned to such assets. I believe that information such as the number of acres and condition of the land would be more useful to the financial statement user than the historical cost of such land (even if it were known).

c. What interpretation might be given to the difference between total assets and total liabilities? Should agencies for which this difference is small be considered financially at risk?

For Federal entities, the difference between total assets and total liabilities is referred to as net position and consists of a number of components. The most prominent of which are invested capital and cumulative results of operations. If the entity is engaged in commercial activities and is expected to recover its costs through the prices charged for goods and services provided, an analysis of net position should focus on the cumulative results of operations. Cumulative results of operations represent the cumulative amount that revenues exceed expenses or expenses exceed revenues. If the amount is a positive number, then cumulative revenues exceed cumulative expenses; if the amount is a negative number, then the opposite is true. If this number is small or a negative number, it would be an indication that the organization is having difficulty recovering costs through the prices it charges and may be considered financially at risk.

For Federal entities not engaged in commercial activities, any conclusions drawn about the difference between total assets and total liabilities would have to be tempered based on the nature of the entity's activities. For example, some Federal entities include among their assets Federal lands and certain heritage assets, such as monuments and buildings. These assets may not be valued or may be valued at a nominal amount. Therefore, for these entities, comparing total assets and total liabilities and drawing conclusions about financial risk based on the difference may be misleading. For these types of entities, information contained in the auditor's report on internal controls or performance information contained in the overview section of the financial statement may provide a better indication of financial risk.

d. For commercial functions defined in the CFOs Act, what interpretation might be given to the difference between income and expenses? Should we expect the income of all such functions to exceed expenses?

The difference between a commercial function's income and expenses is a measure of the commercial function's success in recovering its costs during the reporting period through the fees charged for the goods and services provided.

As defined in the CFOs Act, a commercial function includes any activity involving the provision of a service or thing of value for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides. Generally speaking, commercial functions should be expected to generate revenues sufficient to cover costs. However, there may be instances where the entity is precluded by statute, regulation, or public

policy from charging the full cost of the goods and services provided; e.g., fees charged for use of Federal recreation areas.

e. How should cost accounting be implemented in the Federal Government?

The process of accumulating the full costs of agency programs and activities should be a fundamental part of an agency's financial management system and, to the extent possible, be integrated with other parts of the system. Federal agencies should establish a process for systematically accumulating and reporting the full cost of their programs and activities on a regular basis. Costs should be assigned to programs or activities by directly tracing costs wherever feasible and economically practicable, assigning costs on a cause and effect basis, or allocating costs on a reasonable and consistent basis.

Question 2. How might Federal accounting standards address concerns about intergenerational equity? Are there useful measures for showing the extent to which current period costs are being shifted to future periods?

Federal accounting standards provide a framework for disclosing the extent to which current costs will be paid in future periods. Federal accounting standards provide for the segregation of liabilities between those covered by budgetary authority and those not covered by budgetary authority. Liabilities represent amounts due for current or past period costs. The term budgetary authority as used in the standard means the authority provided by Federal law to incur financial obligations.

The financial statement treatment of veterans compensation and pension benefits is an illustration of how the standards will provide information on the extent to which future budgetary resources will be needed to pay current and past period costs. Funds to pay veterans compensation and pension benefits are appropriated on a year-by-year basis to pay the compensation and pension benefits for that specific year. However, the standards require that the Department of Veterans Affairs disclose on its financial statements a liability for the accrued amount of veterans compensation and pension benefits expected to be paid to veterans and, if applicable, their survivors who have met defined eligibility criteria as of the financial statement date. The financial statement must segregate the liability between the amount covered by budgetary resources and the amount not covered by budgetary resources. As of September 30, 1994, the Department of Veterans Affairs reported a liability not covered by budgetary resources for veterans compensation and pension benefits of \$213.9 billion. The payment of this liability will require future budgetary resources.

PERFORMANCE MEASUREMENT

Question 1. What are your views on the level of attention that IGs should give to issues of program effectiveness and to making recommendations for achieving improvements in that area particularly in light of the Government Performance and Results Act? What role should IGs play in auditing and verifying the results reported by programs and in evaluating program performance?

Although, by far, the greater percentage of OIG resources are applied to integrity issues, OIGs do have an important role to play in assessing program effectiveness. I see the OIGs doing this in three ways.

As part of their integrity work, IGs identify and make recommendations to correct underlying systemic problems that plague Federal programs and operations. This work should be a top priority for IGs; it can have a significant impact on program effectiveness.

OIGs have a program of performance audits and/or inspections to look at the impact and performance of Federal programs. Many of these audits/inspections are requested by agency management. They provide an independent analysis of how a program is working that can be very useful to Congressional and agency decisionmakers.

Finally, while GPRA provides management the primary responsibility for determining performance measures and tracking performance against those standards, the OIGs can provide useful assistance to management in this effort. The IGs should review the results of management's work in implementing GPRA; they should review the systems used to collect performance data to ensure that they can provide accurate information. The OIGs should also recommend corrective actions in those cases where there are weak-

nesses in the systems that produce performance data, or where performance data demonstrate poor performance.

Question 2. The CFOs Act gives OMB the responsibility for overseeing the "systematic measurement of performance." The Government Performance and Results Act spells out in detail OMB's performance measurement mission. What are your views on performance measurement, including its benefits, any potential barriers to successful implementation, and the specific requirements of GPRA?

As a matter of course, most major businesses have long relied on strategic plans, annual business plans, and annual reports to direct the efforts and focus the attention of their managers. GPRA will bring strategic plans, annual performance plans, and annual performance reports to the Federal Government in recognition of the fact that no operations can succeed simply by concentrating on how much money is being spent, while ignoring what that spending is producing or generating in return.

Government does not and cannot have the same "profit and loss bottom line" as business. But government should have a bottom line: what are the outputs and outcomes—on the common welfare, on enterprise and commerce, on natural resources and the world around us—resulting from government spending, and how do these results compare with what was intended and expected.

The opportunity that GPRA presents to make government work better was recognized in the first months of this Administration, with the President's strong endorsement of the bill that ultimately became law. Subsequently, the Vice President's National Performance Review (NPR) identified GPRA as a key element in the effort to reinvent government. GPRA continues to make eminent sense, and the Administration and OMB are fully committed to bringing about its successful implementation.

If only in its scale, implementation of GPRA will not be easy. GPRA seeks to change the historical way of how the government is run across every Cabinet department and virtually every independent agency. The scope of this change is unprecedented in either business or government. Aside from scale, the participation and support of thousands of Federal managers are critical to making GPRA work. There must be sufficient incentive to assure their involvement, accountability, and risk-taking.

Question 3. The GPRA requires testing performance measurement through use of pilot projects. OMB has now approved 75 GPRA pilots. What are your views on the selection of so many pilots and on OMB staff capacity to oversee and evaluate them? What have been the financial and programmatic results of the pilots to date?

I understand that the number of pilot projects resulted from OMB's purposefully encouraging every agency to nominate pilot projects, and placing few barriers to becoming designated. This was done for several reasons: (1) to meet the GPRA requirements for annual performance plans in 1997, Federal agencies (regardless of whether selected as a pilot) have only three years to develop capacities and experience in measuring performance and setting performance goals; (2) consistent with the Act, pilots were chosen to cover a full range of Federal functions and activities; (3) pilots serve as the leading edge of GPRA implementation, not only by serving as the basis for "lessons learned" but also by producing measurement concepts and approaches that can be adopted or adapted by non-pilot agencies; (4) only with a significant number of pilots can one determine whether a particular problem is widespread or singular, or if a success is unique or readily replicable elsewhere. Also, by having pilot projects span numerous agencies and functions, virtually every division and branch in OMB is being given early experience in working with the agencies on setting performance goals prior to 1997.

While on first impression the scale of the pilot projects may appear to be large, the 425,000 Federal personnel covered by the pilots represent about 11 percent of all the personnel (civilian, military, and Postal Service) in agencies subject to GPRA.

There have been no problems to date in overseeing and evaluating the performance measurement pilot projects, and none are anticipated. OMB expects to concentrate its coordination efforts on those pilots that, because of their size, importance to the development of performance measures for a particular function, or significance as the leading edge of GPRA implementation in an agency, will be critical to carrying out successfully the pilot phase of GPRA.

As for results to date from the pilots, it is too soon to generalize from the FY 1994 program performance reports, only some of which have been submitted so far. A significant percentage of these have submitted the audited financial statement in lieu of a GPRA program performance report, which is permitted under GPRA.

Question 4. What are your views on the relation between OMB's CFOs Act performance measurement responsibility and its responsibility inherent in GPRA? Please include in your answer a discussion of the relation between performance measurement as a financial management tool and as a broader program measurement tool.

Performance measurement and program evaluation are essential to an effective allocation of Federal resources.

The CFOs Act, by providing for the reporting of performance as part of the annual financial statements, initiated a government focus on performance measurement which has served to build a foundation for the performance measurement provisions of GPRA.

While the annual financial statements include performance measures, much of the significant management information in these statements is contained in the detailed reporting of financial condition, such as assets and liabilities and in the disclosure of financial and related management weaknesses.

The CFO Council has created "Guiding Principles for Implementing GPRA". Among these principles is the following:

Integrate existing processes with GPRA requirements. Existing planning, budgeting, program evaluations and fiscal accountability processes should be integrated with GPRA requirements to ensure consistency and reduce duplication of effort. In addition, other management improvement efforts, such as the implementation of the CFO and Integrity Acts, customer service initiatives, reengineering, Total Quality Management, etc., should be incorporated into the GPRA framework to capitalize on the synergy and availability of key information and to improve responsiveness to customers and other stakeholders.

I believe that this principle can be important to GPRA implementation.

The goal should be to produce financial reports that are relevant to the management of Federal programs. One way to achieve this is to assure that the performance measures in the annual financial statements are the same as those in the GPRA program performance reports.

Question 5. Given that GPRA calls for agencies to be more responsible for producing results and provides for greater managerial flexibility, what are its implications for OMB's general management oversight role?

GPRA calls for a fundamental transformation in how government programs and activities are administered and managed. The prevailing focus on input is broadened to make for a balanced equilibrium, pairing inputs with outputs and outcomes: what are the effects of this investment, what is being accomplished, and are programs working?

A corresponding shift should also occur within OMB, as OMB staff substantially expand the effort and attention devoted to program execution and program results. As agency managers and officials become increasingly accountable for program performance, GPRA intends that they be given more latitude and discretion by OMB, other central management agencies, and the Congress in how resources are allocated and deployed to accomplish the target performance levels.

Question 6. The NPR recommended use of performance agreements between the President and top Executive Branch officials. What are your views on the advisability of including financial management goals in such agreements?

As the NPR report noted in its discussion on accountability for results, "Past efforts to institute management by objectives have collapsed under the weight of too many objectives and too much reporting. The President should craft agreements with cabinet secretaries and agency heads to focus on the administration's strategy and policy objectives . . . Not everyone will welcome outcome measures . . . (p. 75)"

Financial management goals are important agency goals; however, some or all of them may not fit with the intent of performance agreements, which are intended to focus on outcome-oriented objectives.

INFORMATION RESOURCES MANAGEMENT

Question 1. In a February 27, 1991, memorandum to agency heads regarding implementation of the CFOs Act, Frank Hodsoll stated:

"The CFO should have line responsibility for agency information resources management (IRM), or, in the alternative, be a full participant in agency-wide IRM councils and decisions and be able to appeal to the agency head IRM decisions affecting financial management of which he/she disapproves."

What are your views on the relation between the CFOs Act's financial management systems mandates and the information resources management mandates of the Paperwork Reduction Act? Specifically, describe your views of how an agency's CFO functions overlap with and are distinct from its information resource management functions.

The CFOs Act gives agency CFOs responsibility for financial management systems. Under the Paperwork Reductions Act, agencies are to designate a senior IRM official who has the responsibility, among others, to ensure that information resources management operations and decisions are integrated with organizational planning, budget, financial management, human resources management, and program decisions. These responsibilities clearly dovetail with each other and with the responsibilities of senior program officials. One of the CFO Council's strategies for achieving its financial management vision is to "build a partnership to ensure the functioning together of information resource management, program management, and financial management, including budgeting."

The recent revisions to OMB Circulars A-127, "Financial Management Systems," and A-130, "Information Resources Management," reflect this relationship. Financial management systems are a subset of information systems governed by Circular A-130 and must be supported by an agency's information technology infrastructure. This requires close cooperation between the CFO and the senior IRM official when developing and operating financial management systems. The CFO must also ensure that financial management systems support the financial management strategies and processes of the agency. The senior IRM official should ensure compliance with broader information resources management policies of the agency.

The CFO should also support IRM officials in developing a full and accurate accounting of information technology expenditures, related expenses, and results. The CFO can bring financial management skills to improving investment decisions and analysis for information technology projects.

OTHER ISSUES

Question 1. Under OMB's 5-point financial management program, Treasury and OMB's financial data bases are to be integrated. As a result of the first step of this effort, the government should know for the first time what its current unobligated balances are. How do you believe that this information effects operational decision-making?

I agree with the statement in the National Performance Review's report which said "Management isn't about guessing, it's about knowing. Those in positions of responsibility must have the information they need to make good decisions. Good managers have the right information at their fingertips. Poor managers don't."

Before OMB and Treasury embarked on the project to integrate their databases, key budget execution information, such as unobligated balances, was sent to OMB on hundreds of sheets of paper which were then stored in desks and file cabinets spread over five floors. When information was needed on the financial activity of certain programs, such as the current available balance of the appropriations supporting the programs, an extensive paper search was needed to pull the information together. In some cases, information was not always available in a sufficiently timely manner to make fully informed decisions.

This is not the way to do business in the 1990s. Resources are better used for analyzing, instead of retrieving, information. Ready access to budget execution information is extremely important to the operational managers of these programs. They need to know what funding is available to them to run their programs. Further, particularly in today's environment of downsizing and cost-cutting, current information on obligations, unobligated



balances, and costs is critical to making informed decisions on reprogramming or budget cuts in the most effective manner.

An added benefit is that improved access to data provides the capability to improve the integrity of financial information. Through analysis we can determine if apparent problems are program or data related and, if the latter, improve financial systems, policy, or information structures to correct it. Better systems and information structures in turn help to improve all of the data produced by an agency and used for decisionmaking.

Question 2. OMB's 5-point program seems most applicable to direct Federal operations. How do you intend to apply these financial management concepts to the hundreds of billions of dollars of Federal money administered by States, localities, and third parties?

Although OMB's 5-point program has been overtaken by passage of the CFO's Act and development of OMB's Federal Financial Management Status Report and Five-Year Plan, the concepts in it are still valid. The objectives of OMB's 5-point program were to improve the quality of Federal financial data and strengthen the financial management of the Federal Government. OMB extends these financial management concepts to recipients of Federal grants-in-aid, such as State and local governments, colleges and universities, and non-profit organizations, through OMB's continued updates of and improvements to its seven grants management circulars and the agencies' grants management common rule.

OMB's grants management circulars set forth financial management and accounting responsibilities for the grantees.

A recipient of Federal grant-in-aid monies is required to maintain an accounting system that has adequate internal controls, maintain detailed records that support receipts and expenditures, and provide timely reports of grant activities. Therefore, although actual financial system designs rest primarily with the grantees, OMB's grants management circulars describe the expected capabilities and basic elements of the grantees' financial systems for the purposes of administering Federal expenditures.

For example, the financial and accounting systems for State and local governments must be able to track funds to a level of expenditures that is sufficient to show that the funds have been spent in compliance with applicable laws and regulations. The financial and accounting systems for colleges and universities and other non-profit organizations must be able to demonstrate accounting, budgetary and internal controls, cash management, reporting capability, cost allowability determination and source documentation.

Furthermore, OMB's audit circulars require grantees to arrange for audits of the financial and accounting systems and transactions, and maintain financial reports to ensure compliance by the grantees with grant terms, applicable laws, regulations and administrative requirements.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

Question 1. What is your impression of the condition of internal controls across government today?

Management controls are generally stronger today than they were prior to implementation of several critical pieces of management legislation over the last 15 years, including the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the IG Act Amendments of 1988, and the CFO's Act of 1990. However, the priority placed on identifying and correcting management control deficiencies varies considerably among agencies. Those agencies which systematically review their operations, through management evaluations, IG reports, and/or audited financial statements, generally identify and make needed management improvements better than those agencies which do not take seriously their obligation to conduct such reviews.

It is my view that the importance of management controls is enhanced as government becomes more performance-oriented. We can set goals and establish performance measures, then meet or exceed our goals, but if program fraud is found, then the value of our accomplishments is diminished or even eliminated. Management controls should be based on preventing problems and should be integral to work processes. They are critical to maintaining confidence in the integrity of government programs.

Question 2. Since the FMFIA was passed, Federal agencies have identified several thousand material internal control systems weaknesses—most of which have been reported by IGs and GAO, instead of by agency managers as the law requires. What will you do to hold managers more accountable?

Instilling a culture of strong accountability is one of the enduring challenges facing government. No single piece of legislation can ensure that all agencies will conscientiously identify and correct management control deficiencies; much depends upon the tone set by the senior leadership of each agency. Therefore, one important tool for encouraging accountability will be emphasized in OMB's revised Circular A-123—establishing a senior management council in each agency to foster management and cultural changes.

Agency senior management councils will build on the activities and priorities of governmentwide councils, such as the President's Management Council, the CFO Council, and the PCIE and ECIE. Each agency can best determine its council's composition and scope, but we expect that these councils will be important tools for addressing management accountability and related issues within the broader context of agency operations.

Question 3. In spite of the FMFIA, instances of fraud, waste, abuse and mismanagement continue to grow in terms of numbers and dollar impact. What more can be done to reduce both the individual incidents of fraud, waste, abuse, and mismanagement, and the related costs to the taxpayer?

The Federal Government continues to make progress in identifying both individual and systemic incidents of waste, fraud, abuse and mismanagement. Some individuals will always manage to cheat the system, but we are getting better at evaluating and improving systems of controls that can prevent widespread abuses. The discipline imposed by preparing and auditing financial statements, for example, requires systems that will help improve management of financial resources. In addition, other initiatives aimed at front-end prevention of problems and improving overall accountability for the use of taxpayer dollars include: initiatives stemming from the Vice President's National Performance Review, development of agency strategic plans and performance measurement pursuant to GPRA, and Presidential performance agreements with agency heads.

OMB is also starting to consider other linkages between budgeting and accounting systems that should help improve accountability. Improvements are needed in agency and governmentwide structures, standards, and systems to address underlying weaknesses. As these initiatives are more thoroughly considered, OMB will consult with the appropriate Congressional committees and obtain their advice.

Question 4. How will OMB's revised circular on internal controls lead to less fraud and waste, and improve compliance with the Act? What is the status of the revision of Circular A-123? How will you better integrate Circular A-123 and Circular A-50?

OMB's proposed revisions to Circular A-123, "Management Accountability and Control," would shift the emphasis from complying with a burdensome paperwork process to fulfilling the intent of the Act: implementing strong management controls in Federal agencies. The Circular will improve compliance with the Act by making management controls more relevant and beneficial to program managers in Federal agencies. It will encourage agencies to integrate management controls into their daily operations, stipulating that managers should benefit from controls, not be encumbered by them. In addition, it should result in the production of more useful information on management controls as part of a broader effort by OMB and the CFO Council, in consultation with the Congress, to integrate and streamline various reporting requirements.

The proposed revision to Circular A-123 was published for comment in the Federal Register on March 13, 1995. Responses are now being analyzed by OFFM. The target date for publication of the final document is June 1995.

The proposed revision of the Circular improves the link between management controls and audit follow-up (as described in Circular A-50) by (a) including "Resolution of Audit Findings and Other Deficiencies" as a management control standard, and (b) emphasizing that audit reports are an important source of information for identifying management control defi-

ciencies. Further, the Circular states that managers are responsible for taking timely and effective action to correct deficiencies.

IV. RELATIONS WITH CONGRESS

Question 1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

Question 2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if confirmed?

Yes.

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